

NORTH DAKOTA PUBLIC EMPLOYEES RETIREMENT SYSTEM

BISMARCK, NORTH DAKOTA

Examination For The Years Ended

June 30, 2008 and 2007

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CERTIFIED PUBLIC ACCOUNTANTS
AND CONSULTANTS

INDEPENDENT AUDITOR'S REPORT

Governor John Hoeven
The Legislative Assembly

Sparb Collins, Executive Director
North Dakota Public Employees Retirement System

We have audited the accompanying financial statements of the business-type activities and fiduciary funds of the North Dakota Public Employees Retirement System, a department of the State of North Dakota, as of and for the years ended June 30, 2008 and 2007, which collectively comprise the System's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the North Dakota Public Employees Retirement System's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

As discussed in Note 1, the financial statements of the North Dakota Public Employees Retirement System are intended to present the financial position, the changes in financial position, the cash flows and the change in net plan assets of only that portion of the business-type activities and fiduciary funds of the State of North Dakota that is attributable to the transactions of the North Dakota Public Employees Retirement System. They do not purport to, and do not, present fairly the financial position of the State of North Dakota as of June 30, 2008 and 2007, and the changes in its financial position and its cash flows, where applicable, for the years then ended in conformity with accounting principles generally accepted in the United States of America.

The actuary for the North Dakota Public Employees Retirement System has determined that the Fund's unfunded actuarial accrued liability is approximately \$128 and \$107 million at June 30, 2008 and 2007, respectively. The funding for the actuarial accrued liabilities is predicated on employer and employee funding rates mandated by North Dakota statutes. The actuary has determined that the current statutory contribution rates are insufficient to meet the actuarially determined requirement, based upon the current assumptions, unless there are sufficient actuarial gains in the future to offset the recent investment losses.

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In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the business-type activities and the plan net assets of the North Dakota Public Employees Retirement System as of June 30, 2008 and 2007, and the respective changes in net plan assets, changes in financial position and cash flows, where applicable, thereof for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued a report dated November 5, 2008, on our consideration of the North Dakota Public Employees Retirement System's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and important for assessing the results of our audit.

The Management's Discussion and Analysis (MD&A) on pages 3 through 8 and the Schedules of Employer Contributions, and Schedule of Funding Progress on pages 60 through 62 are not a required part of the basic financial statements but are supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audits were conducted for the purpose of forming an opinion on the financial statements that collectively comprise the North Dakota Public Employees Retirement System's basic financial statements. The Schedule of Investment Expenses and Administrative Expenses-Fiduciary Funds and the Statement of Appropriations are presented for the purposes of additional analysis and are not a required part of the basic financial statements. This information has been subjected to the auditing procedures applied in our audit of the basic financial statements and in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole.



BRADY, MARTZ & ASSOCIATES, P.C.

November 5, 2008

NORTH DAKOTA PUBLIC EMPLOYEES RETIREMENT SYSTEM
Bismarck, North Dakota

Management Discussion and Analysis

June 30, 2008 and 2007

Our discussion and analysis of the North Dakota Public Employees Retirement System financial performance provides an overview of the agency's financial activities for the fiscal year ended June 30, 2008. Please read it in conjunction with the basic financial statements, which follow this discussion.

NDPERS administers a total of eight fiduciary funds. This includes four defined benefit pension trust funds (PERS, Highway Patrol, Job Service and OASIS), one defined contribution pension trust fund, the retiree health insurance credit trust fund, the deferred compensation trust fund and pretax benefits trust fund. NDPERS also administers one proprietary fund, the Uniform Group Insurance Program, which is an enterprise fund.

Financial Highlights – Pension and Other Employee Benefit Plans

- As of June 30, 2008 and 2007, the funding ratio (actuarial value of assets divided by actuarial accrued liability) for each of the funds is shown below:

	<u>2008</u>	<u>2007</u>
Public Employees Retirement System	92.6%	93.4%
Highway Patrolmen Retirement System	93.0%	93.5%
Retirement Plan for Employees of Job Service ND	108.8%	107.1%
Retiree Health Insurance Credit Fund	48.5%	45.6%

NDPERS' funding objective is to meet long-term benefit promises through contributions and investment income. The funding ratio listed above gives an indication of how well this objective has been met to date. The higher the funding ratio, the better the plan is funded. The funding ratios for the PERS and Highway Patrol plans decreased slightly from the previous fiscal year as a result of investment earnings falling short of projections.

- Plan net assets for all trust funds administered by NDPERS decreased \$132.8 million or 6.3% during the fiscal year ended June 30, 2008. The decrease was primarily due to net losses on investments during the fiscal year.

	(in thousands)
Public Employees Retirement System	\$(117,702)
Highway Patrolmen Retirement System	(4,622)
Retiree Health Insurance Credit Fund	(4,856)
Defined Contribution Retirement Fund	(796)
Pretax Benefits Fund	(530)
Deferred Compensation Plan	452
Retirement Plan for Employees of Job Service ND	(4,773)
OASIS Trust Fund	(9)
Total decrease in plan net assets	<u><u>\$(132,836)</u></u>

- As of June 30, 2008, a total of \$2.4 million in software development costs was incurred and capitalized and is shown as Software (not in production) on the Statement of Plan Net Assets for each of the trust funds.

NORTH DAKOTA PUBLIC EMPLOYEES RETIREMENT SYSTEM
Bismarck, North Dakota

Management's Discussion and Analysis

June 30, 2008 and 2007

Financial Highlights – Uniform Group Insurance Program

- Net assets increased by \$399,415 or 43%. The increase results from earnings on cash reserves and administrative fees exceeding administrative expenses.
- As of June 30, 2008, a total of \$960,988 in software development costs was incurred and capitalized and is shown as Software (not in production) on the Statement of Net Assets for the Proprietary Fund.

Overview of the Financial Statements

The discussion and analysis is intended to serve as an introduction to the basic financial statements for NDPERS, which include the fund financial statements, notes to the financial statements, required supplementary information and other supplementary information.

Fund financial statements. There are two financial statements presented for the fiduciary funds. The Statement of Fiduciary Net Assets as of June 30, 2008, indicates the net assets available to pay future payments and gives a snapshot at a particular point in time. The Statement of Changes in Fiduciary Net Assets for the year ended June 30, 2008, provides a view of the current year's additions and deductions to the individual trust funds.

There are three financial statements presented for the proprietary fund. The Statement of Net Assets as of June 30, 2008, provides a snapshot at a particular point in time of the net assets available for use by this program. The Statement of Revenues, Expenses, and Changes in Fund Net Assets for the year ended June 30, 2008, provides a view of the current year's operating and non-operating revenues and expenses for the enterprise fund. The Statement of Cash Flows for the year ended June 30, 2008 shows the cash used by operating activities as well as the net increase in cash due to operating and investing activities.

Notes to the financial statements. The notes provide additional information that is essential for a full understanding of the data provided in the fund financial statements. The notes include information on the funding status, funding progress and actuarial assumptions and methods for each of the defined benefit pension trust funds and the retiree health insurance credit advance funded and implicit subsidy unfunded plans. The notes to the financial statements can be found on pages 16-59 of this report.

Required supplementary information. The required supplementary information consists of a Schedule of Employer Contributions and a Schedule of Funding Progress for the defined benefit pension trust funds, the retiree health insurance credit advance funded plan and implicit subsidy unfunded plan. These schedules provide historical trend information, which contributes to understanding the changes in the funded status of the funds over time.

Other supplementary schedules. The Schedule of Investment and Administrative Expenses and Statement of Appropriations are presented for the purpose of additional analysis.

NORTH DAKOTA PUBLIC EMPLOYEES RETIREMENT SYSTEM
Bismarck, North Dakota

Management's Discussion and Analysis

June 30, 2008 and 2007

Financial Analysis

The financial results for fiscal years 2008 and 2007 are summarized below. The information in the tables below is condensed from the Financial Statements.

Statement of Fiduciary Net Assets (in thousands)

	June 30, 2008	% Change	June 30, 2007	% Change	June 30, 2006
Assets					
Cash	\$ 2,082	(30.2)%	\$ 2,984	43.5%	\$ 2,079
Receivables	9,450	(3.8)%	9,819	6.3%	9,240
Investments, at fair value	1,979,470	(6.3)%	2,113,596	18.3%	1,786,864
Securities Lending Collateral	31,937	(81.5)%	172,982	9.7%	157,620
Prepaid Benefits	0	0.0%	0	0.0%	0
Software & Equipment, net of accum depr	2,386	47,620.0%	5	150.0%	2
Total assets	<u>2,025,325</u>	<u>(11.9)%</u>	<u>2,299,386</u>	<u>17.6%</u>	<u>1,955,805</u>
Liabilities					
Long-term liabilities outstanding	115	5.5%	109	14.7%	95
Other liabilities	35,691	(79.8)%	176,922	10.7%	159,761
Total liabilities	<u>35,806</u>	<u>(79.8)%</u>	<u>177,031</u>	<u>10.7%</u>	<u>159,856</u>
Net assets available for benefits	<u>\$1,989,519</u>	<u>(6.3)%</u>	<u>\$2,122,355</u>	<u>18.2%</u>	<u>\$1,795,949</u>

The total assets for all fiduciary funds as of June 30, 2008 were \$2 billion and were comprised mainly of investments and invested securities lending collateral. For the fiscal year ended June 30, 2008, plan assets decreased by \$274.1 million. This decrease was primarily due to losses in the financial markets during the fiscal year. Securities lending collateral also decreased. For the fiscal year ended June 30, 2007, plan assets increased by \$343.6 million, primarily due to financial market gains.

Total liabilities as of June 30, 2008 were \$35.8 million and were primarily comprised of securities lending collateral. Total liabilities decreased \$141.2 million from June 30, 2007 as a result of a decrease in securities lending collateral at year-end. Total liabilities increased \$17.1 million from June 30, 2006 as a result of an increase in securities lending collateral.

NORTH DAKOTA PUBLIC EMPLOYEES RETIREMENT SYSTEM
Bismarck, North Dakota

Management's Discussion and Analysis

June 30, 2008 and 2007

Statement of Changes in Fiduciary Net Assets (in thousands)

	June 30 2008	% Change	June 30, 2007	% Change	June 30, 2006
Additions					
Contributions	\$ 76,900	24.1%	\$ 61,945	4.9%	\$ 59,043
Investment income	(110,815)	(132.1)%	345,429	83.7%	188,057
Other	4,257	(3.9)%	4,429	(1.0)%	4,473
Total additions	<u>(29,658)</u>	<u>(107.2)%</u>	<u>411,803</u>	<u>63.7%</u>	<u>251,573</u>
Deductions					
Benefit payments	95,408	22.7%	77,756	4.0%	74,734
Refunds/Transfers	5,865	3.0%	5,695	25.8%	4,527
Administrative expenses	1,905	(2.1)%	1,946	23.1%	1,581
Total deductions	<u>103,178</u>	<u>20.8%</u>	<u>85,397</u>	<u>5.6%</u>	<u>80,842</u>
Changes in net assets available for benefits	<u>\$(132,836)</u>	<u>(140.7)%</u>	<u>\$326,406</u>	<u>91.2%</u>	<u>\$170,731</u>

Additions. Contributions and returns on invested funds are the primary additions that are accumulated and used to pay benefits for each of the plans. Contributions increased \$15 million and \$2.9 million for the years ended June 30, 2008 and 2007, respectively. Contributions increased more than usual as a result of two new activities that occurred during the fiscal year. In September 2007, a one-time transfer of funds from the North Dakota Teacher's Fund for Retirement (TFFR) in the amount of \$3.2 million was received. This transfer was for employees of the state board of career and technical education who elected to transfer from TFFR to PERS as a result of legislation passed by the 2007 Legislative Assembly. Also, additional contributions of \$5.7 are being reported for the Retiree Health Insurance Credit Fund for the first time, in compliance with GASB Statement 43, to reflect the premiums received from retirees whose health insurance rates are being subsidized. This year, the plans experienced negative investment earnings of \$110.8 million, compared to positive earnings of \$345.4 million in 2007. The decrease in Other Additions in 2008 and 2007 is primarily due to changes in the volume of service purchase contributions.

Deductions. Expenses include benefit payments, refunds/transfers, and administrative expenses. Expenses for the year ended June 30, 2008 totaled \$103.1 million, an increase of \$17.8 million over 2007. In the previous fiscal year, expenses totaled \$85.4 million, an increase of \$4.6 million. Benefit payments increased more than usual as a result of two new two activities that occurred during the fiscal year. In January 2008, a one-time supplemental retirement check was issued to pensioners totaling \$4.2 million. Also, additional health premiums paid of \$5.7 are being reported for the Retiree Health Insurance Credit Fund for the first time, in compliance with GASB Statement 43, to reflect the payment of premiums to the health insurance carrier for retirees whose health insurance rates are being subsidized.

NORTH DAKOTA PUBLIC EMPLOYEES RETIREMENT SYSTEM
Bismarck, North Dakota

Management's Discussion and Analysis

June 30, 2008 and 2007

Statement of Proprietary Fund Net Assets (in thousands)

	June 30 2008	% Change	June 30 2007	% Change	June 30 2006
Assets					
Cash	\$ 7,769	6.7%	\$ 7,279	(27.7)%	\$ 10,071
Receivables	85	(86.3)%	621	(68.4)%	1,965
Software (not in production)	961	N/A	0	0.0%	0
Total assets	8,815	11.6%	7,900	(34.4)%	12,036
Liabilities					
Long-term liabilities outstanding	43	7.5%	40	(14.9)%	47
Other liabilities	7,444	7.4%	6,932	(19.9)%	8,650
Total liabilities	7,487	7.4%	6,972	(19.8)%	8,697
Net assets	<u>\$ 1,328</u>	<u>43.1%</u>	<u>\$ 928</u>	<u>(72.2)%</u>	<u>\$3,339</u>

As of June 30, 2008, net assets are \$1.3 million, a 43.1% increase from a year ago. The increase is primarily due to the addition of software (not in production) as an asset. As of June 30, 2007, net assets are \$.9 million, which is a 72.2% decrease from 2006. In July 2006, cash reserves of approximately \$2.8 were transferred to Blue Cross Blue Shield as part of the contract for the 2005-2007. This transfer resulted in the decrease in net assets.

The net assets of the proprietary fund consist primarily of cash and are to be used for the following:

- To pay the administrative expenses of the uniform group insurance program
- To reduce premium payments or premium increases, or
- To increase insurance coverage

Statement of Changes in Proprietary Fund Net Assets (in thousands)

	June 30 2008	% Change	June 30 2007	% Change	June 30 2006
Operating Revenues					
Administrative Fee	\$ 923	2.3%	\$ 902	4.5%	\$ 863
Non-Operating Revenues					
Investment income	213	(32.2)%	314	(25.2)%	420
Total revenues	1,136	(6.6)%	1,216	(5.2)%	1,283
Operating Expenses					
Premium reduction expense	0	N/A	2,855	N/A	0
Administrative expenses	737	(4.5)%	772	.5%	768
Total expense	737	(79.7)%	3,627	372.3%	768
Change in Net Assets	<u>\$ 399</u>	<u>116.5%</u>	<u>\$(2,411)</u>	<u>(568.2)%</u>	<u>\$ 515</u>

NORTH DAKOTA PUBLIC EMPLOYEES RETIREMENT SYSTEM
Bismarck, North Dakota

Management's Discussion and Analysis

June 30, 2008 and 2007

For the fiscal year ended June 30, 2008, net assets increased by \$.4 million as a result of administrative fees and investment earnings exceeding administrative expenses. Expenses related to the software development project are being shown as an asset and are not included as part of administrative expenses. For the fiscal year ended June 30, 2007, net assets decreased by \$2.4 million. This was due to the premium reduction payment made to Blue Cross Blue Shield during the fiscal year.

Contacting NDPERS Financial Management

This financial report is designed to provide our members, annuitants, employers, business partners and the general public with a general overview of the System's financial activities. If you have questions about this report or need additional financial information, contact the North Dakota Public Employees Retirement System, PO Box 1657, Bismarck, ND 58502.

NORTH DAKOTA PUBLIC EMPLOYEES RETIREMENT SYSTEM
Bismarck, North Dakota

Statement of Net Assets
Proprietary Funds
June 30, 2008 and 2007

		Uniform Group Insurance Program	
		<u>2008</u>	<u>2007</u>
ASSETS			
Current assets:			
Cash and cash equivalents	\$	7,768,650	\$ 7,279,269
Accounts receivable		11,141	577,819
Due from fiduciary funds		73,781	35,375
Due from other state agencies		-	7,213
Total current assets		<u>7,853,572</u>	<u>7,899,676</u>
Capital assets:			
Software (not in production)		<u>960,988</u>	<u>-</u>
Total assets	\$	<u><u>8,814,560</u></u>	<u><u>\$ 7,899,676</u></u>
LIABILITIES			
Current liabilities:			
Salaries payable		47,345	36,526
Accounts payable		273,533	24,212
Due to other state agencies		13,155	7,004
Accrued compensated absences		2,496	2,169
Amounts held in custody for others		4,472,215	4,214,307
Deferred premiums		<u>2,634,689</u>	<u>2,647,509</u>
Total current liabilities		<u>7,443,433</u>	<u>6,931,727</u>
Noncurrent liabilities			
Accrued compensated absences		<u>43,384</u>	<u>39,621</u>
Total liabilities		<u><u>7,486,817</u></u>	<u><u>6,971,348</u></u>
NET ASSETS			
Unrestricted		<u>1,327,743</u>	<u>928,328</u>
Total net assets	\$	<u><u>1,327,743</u></u>	<u><u>\$ 928,328</u></u>

The accompanying notes are an integral part of these financial statements.

NORTH DAKOTA PUBLIC EMPLOYEES RETIREMENT SYSTEM
Bismarck, North Dakota

Statement of Revenues, Expenses, and Changes in Fund Net Assets
Proprietary Funds
For the years ended June 30, 2008 and 2007

	Uniform Group Insurance Program	
	<u>2008</u>	<u>2007</u>
OPERATING REVENUES:		
Administrative fee	\$ 923,188	\$ 901,860
Total operating revenues	<u>923,188</u>	<u>901,860</u>
 OPERATING EXPENSES:		
Salaries and wages	488,293	425,967
Operating expenses	140,807	134,775
Professional fees	62,435	180,306
Data processing	45,638	31,463
Premium reduction expenses	-	2,854,680
Total operating expenses	<u>737,173</u>	<u>3,627,191</u>
Operating income (loss)	<u>186,015</u>	<u>(2,725,331)</u>
 NON-OPERATING REVENUES:		
Investment income	<u>213,400</u>	<u>314,712</u>
	<u>213,400</u>	<u>314,712</u>
 Change in net assets	<u>399,415</u>	<u>(2,410,619)</u>
Total net assets - beginning of year	<u>928,328</u>	<u>3,338,947</u>
 Total net assets - ending of year	<u>\$ 1,327,743</u>	<u>\$ 928,328</u>

The accompanying notes are an integral part of these financial statements.

NORTH DAKOTA PUBLIC EMPLOYEES RETIREMENT SYSTEM
Bismarck, ND

Statement of Cash Flows
Proprietary Funds
For the years ended June 30, 2008 and 2007

	Uniform Group Insurance Program	
	<u>2008</u>	<u>2007</u>
Cash Flows From Operating Activities:		
Premiums collected	\$ 162,535,552	\$ 144,180,860
Claims experience gains/losses	257,908	2,036,146
Administrative fees collected	1,445,853	1,254,905
Payments to suppliers	(244,505)	(351,471)
Premiums paid	(162,535,552)	(149,794,391)
Payments to employees	(473,384)	(432,184)
Net Cash Provided (Used) By Operating Activities	<u>985,872</u>	<u>(3,106,135)</u>
Cash Flows From Investing Activities:		
Investment income	<u>213,400</u>	<u>314,712</u>
Cash Flows Used By Capital and Related Financing Activities:		
Acquisition and construction of capital assets/software	<u>(709,891)</u>	<u>-</u>
Net Increase (Decrease) in Cash and Cash Equivalents	489,381	(2,791,423)
Cash and Cash Equivalents Balance - Beginning of Year	<u>7,279,269</u>	<u>10,070,692</u>
Cash and Cash Equivalents Balance - End of Year	<u><u>\$ 7,768,650</u></u>	<u><u>\$ 7,279,269</u></u>
Reconciliation of Operating Income to Net Cash Provided		
Operating Income (Loss)	\$ 186,015	\$ (2,725,331)
Adjustments To Reconcile Operating Income (Loss) To Net Cash Provided		
By Operating Activities:		
Premiums Collected and BCBS Surplus Used	162,535,552	149,794,391
Premiums Paid	(162,535,552)	(149,794,391)
Changes in Assets and Liabilities:		
(Increase) Decrease in Accounts Receivable	566,678	1,331,043
Decrease in Due From Other Funds	(38,406)	2,338
(Increase) Decrease in Due From Other State Agencies	7,213	11,681
(Increase (Decrease) in Salaries Payable	10,819	1,230
Decrease in Accrued Compensated Absences	4,090	(7,447)
Decrease in Accounts Payable	(1,776)	(2,355)
Increase (Decrease) in Due To Other State Agencies	6,151	1,691
Increase (Decrease) in Amounts Held in Custody for Others	257,908	(1,913,853)
Increase(Decrease) in Due To Other Funds	-	(4,263)
Decrease in Deferred Premiums	(12,820)	199,131
Total Adjustments	<u>799,857</u>	<u>(380,804)</u>
Net Cash Provided (Used) By Operating Activities	<u><u>\$ 985,872</u></u>	<u><u>\$ (3,106,135)</u></u>

The accompanying notes are an integral part of these financial statements.

Statement of Plan Net Assets

	Public Employees Retirement System	Highway Patrolmen's Retirement System	Retiree Health Insurance Credit Fund	Defined Contribution Retirement Fund	Pretax Benefits Program	Deferred Compensation Plan	Retirement Plan for Employees of Job Service North Dakota	Oasis Trust Fund
LIABILITIES:								
Salaries payable	\$ 61,097	\$ -	\$ -	\$ -	\$ 17,384	\$ 27,595	\$ -	\$ -
Accounts payable	2,935,133	-	26,387	-	93,110	182,326	99,563	772
Due to fiduciary funds	-	2,382	132,124	-	-	-	9,737	-
Due to proprietary funds	-	-	69,600	1,970	-	-	4,181	-
Due to other state agencies	23,607	-	-	18	2,150	4,519	-	-
Deferred contributions	-	-	-	-	-	53,217	-	-
Securities lending collateral	28,264,719	891,477	-	-	-	-	2,781,230	-
Accrued compensated absences	67,327	-	-	-	21,110	33,341	-	-
Total liabilities	31,351,883	893,859	228,111	1,988	133,754	300,998	2,894,711	772
NET ASSETS:								
Held in trust for pension benefits	1,761,223,031	55,587,776	-	17,129,965	-	24,310,320	89,913,883	15,474
Held in trust for postemployment healthcare benefits	-	-	40,423,019	-	-	-	-	-
Held in trust for pretax benefits (A schedule of pension funding progress for each plan is presented on pages 60-61)	-	-	-	-	915,370	-	-	-
Total net assets held in trust	\$ 1,761,223,031	\$ 55,587,776	\$ 40,423,019	\$ 17,129,965	\$ 915,370	\$ 24,310,320	\$ 89,913,883	\$ 15,474

The accompanying notes are an integral part of these financial statements.

	Public Employees Retirement System	Highway Patrolmen's Retirement System	Retiree Health Insurance Credit Fund	Defined Contribution Retirement Fund	Pretax Benefits Program	Deferred Compensation Plan	Retirement Plan for Employees of Job Service North Dakota	Oasis Trust Fund
LIABILITIES:								
Salaries payable	\$ 50,588	\$ -	\$ -	\$ -	\$ 15,274	\$ 20,818	\$ -	\$ -
Accounts payable	3,434,293	-	37,747	-	4,451	7,681	126,765	772
Due to fiduciary funds	-	68,302	88,214	-	-	-	14,432	-
Due to proprietary funds	5,470	-	28,041	-	-	-	1,864	-
Due to other state agencies	10,054	-	-	17	722	1,648	-	-
Deferred contributions	-	-	-	-	-	17,699	-	-
Securities lending collateral	155,223,560	4,984,671	-	-	-	-	12,773,349	-
Accrued compensated absences	64,760	-	-	-	19,019	31,131	-	-
	<u>158,788,725</u>	<u>5,052,973</u>	<u>154,002</u>	<u>17</u>	<u>39,466</u>	<u>78,977</u>	<u>12,916,410</u>	<u>772</u>
NET ASSETS:								
Held in trust for pension benefits	1,878,924,867	60,209,892	-	17,926,337	-	23,858,057	94,687,307	24,079
Held in trust for postemployment healthcare benefits	-	-	45,278,720	-	-	-	-	-
Held in trust for pretax benefits (A schedule of pension funding progress for each plan is presented on page 50)	-	-	-	-	1,445,755	-	-	-
	<u>\$ 1,878,924,867</u>	<u>\$ 60,209,892</u>	<u>\$ 45,278,720</u>	<u>\$ 17,926,337</u>	<u>\$ 1,445,755</u>	<u>\$ 23,858,057</u>	<u>\$ 94,687,307</u>	<u>\$ 24,079</u>

Total net assets held in trust

The accompanying notes are an integral part of these financial statements.

NORTH DAKOTA PUBLIC EMPLOYEES RETIREMENT SYSTEM
Bismarck, ND

Statement of Changes in Plan Net Assets
Fiduciary Funds
For the Year Ended June 30, 2008

	Public Employees Retirement System	Highway Patrolmen's Retirement System	Retiree Health Insurance Credit Fund	Defined Contribution Retirement Fund	Pretax Benefits Program	Deferred Compensation Plan	Retirement Plan for Employees of Job Service North Dakota	Oasis Trust Fund
ADDITIONS:								
Contributions:								
From employer	\$ 25,253,902	\$ 1,058,825	\$ 6,174,940	\$ 565,281	\$ -	\$ -	\$ -	\$ -
From employee	23,896,615	649,861	5,686,576	548,827	5,394,790	3,213,972	123,718	-
Transfers from other plans	-	-	-	76,487	-	-	-	-
From external plans	3,208,999	-	-	10,313	-	170,387	-	-
From pretax benefits fund	-	-	-	-	-	866,895	-	-
Total contributions	52,359,516	1,708,686	11,861,516	1,200,908	5,394,790	4,251,254	123,718	-
Investment income (loss):								
Net change								
in fair value of investments	(129,191,077)	(4,112,373)	(7,701,312)	(1,843,057)	-	(3,254,582)	(2,847,451)	-
Interest and dividends	42,545,611	1,354,600	1,343,002	954,691	23,454	1,643,428	2,133,511	661
Less investment expense	(11,093,487)	(354,276)	(110,942)	(13,213)	-	(58,575)	(622,355)	-
Net investment income (loss)	(97,738,953)	(3,112,049)	(6,469,252)	(901,579)	23,454	(1,669,729)	(1,336,295)	661
Securities lending activity:								
Securities lending income	3,377,738	107,519	-	-	-	-	284,811	-
Less securities lending expenses	(3,026,817)	(96,349)	-	-	-	-	(258,635)	-
Net securities lending income	350,921	11,170	-	-	-	-	26,176	-
Repurchase service credit	3,454,411	-	227,855	-	-	-	-	-
FICA tax savings	-	-	-	-	557,869	-	-	-
Miscellaneous income	5,187	21	-	11,940	34	-	-	-
Total additions	(41,568,918)	(1,392,172)	5,619,919	311,269	5,976,147	2,581,525	(1,186,401)	661
DEDUCTIONS:								
Benefits paid to participants	70,153,871	3,077,105	-	1,100,358	5,386,675	1,733,280	3,564,811	9,266
Refunds	4,784,327	134,475	2,673	-	-	-	-	-
Prefunded credit applied	-	-	4,704,087	-	-	-	-	-
Health premiums paid	-	-	5,678,983	-	-	-	-	-
Transfers to other plans	76,487	-	-	-	866,895	-	-	-
	75,014,685	3,211,580	10,385,743	1,100,358	6,253,570	1,733,280	3,564,811	9,266
Administrative expenses								
Total deductions	1,118,233	18,364	89,877	7,283	252,962	395,982	22,212	-
	76,132,918	3,229,944	10,475,620	1,107,641	6,506,532	2,129,262	3,587,023	9,266
Change in net assets	(117,701,836)	(4,622,116)	(4,855,701)	(796,372)	(530,385)	452,263	(4,773,424)	(8,605)
Net assets - beginning of year	1,878,924,867	60,209,892	45,278,720	17,926,337	1,445,755	23,858,057	94,687,307	24,079
Net assets - end of year	\$ 1,761,223,031	\$ 55,587,776	\$ 40,423,019	\$ 17,129,965	\$ 915,370	\$ 24,310,320	\$ 89,913,883	\$ 15,474

The accompanying notes are an integral part of these financial statements.

NORTH DAKOTA PUBLIC EMPLOYEES RETIREMENT SYSTEM
Bismarck, ND

Statement of Changes in Plan Net Assets
Fiduciary Funds
For the Year Ended June 30, 2007

	Public Employees Retirement System	Highway Patrolmen's Retirement System	Retiree Health Insurance Credit Fund	Defined Contribution Retirement Fund	Pretax Benefits Program	Deferred Compensation Plan	Retirement Plan for Employees of Job Service North Dakota	Oasis Trust Fund
ADDITIONS:								
Contributions:								
From employer	\$ 23,140,767	\$ 960,487	\$ 5,665,071	\$ 551,043	\$ -	\$ -	\$ -	\$ -
From employee	21,883,581	592,398	7,959	535,403	5,156,770	2,712,945	132,564	-
Transfers from other plans	-	-	-	39,829	-	-	-	-
From external plans	-	-	-	-	-	130,797	-	-
From pretax benefits fund	-	-	-	-	-	435,000	-	-
Total contributions	45,024,348	1,552,885	5,673,030	1,126,275	5,156,770	3,278,742	132,564	-
Investment income:								
Net change in fair value of investments	276,093,445	8,937,992	4,926,308	1,618,224	-	2,192,352	11,691,612	-
Interest and dividends	42,495,993	1,375,836	1,331,047	856,222	34,620	1,286,063	2,325,117	1,292
Less investment expense	(9,181,888)	(297,446)	(128,097)	(11,876)	-	(49,155)	(416,599)	-
Net investment income	309,407,550	10,016,382	6,129,258	2,462,570	34,620	3,429,260	13,600,130	1,292
Securities lending activity:								
Securities lending income	7,978,713	258,295	-	-	-	-	679,120	-
Less securities lending expenses	(7,659,310)	(247,955)	-	-	-	-	(660,454)	-
Net securities lending income	319,403	10,340	-	-	-	-	18,666	-
Repurchase service credit	3,679,036	-	204,758	-	-	-	-	-
FICA tax savings	-	-	-	-	530,697	-	-	-
Miscellaneous income	4,759	44	-	9,407	119	-	-	-
Total additions	358,435,096	11,579,651	12,007,046	3,598,252	5,722,206	6,708,002	13,751,360	1,292
DEDUCTIONS:								
Benefits paid to participants	60,469,904	2,892,964	-	370,052	5,041,599	1,046,105	3,400,892	9,245
Refunds	5,131,324	85,812	2,798	-	-	-	-	-
Refunded credit applied	-	-	4,525,810	-	-	-	-	-
Transfers to other plans	39,829	-	-	-	435,000	-	-	-
	65,641,057	2,978,776	4,528,608	370,052	5,476,599	1,046,105	3,400,892	9,245
Administrative expenses	1,109,260	19,410	104,953	7,900	261,447	418,426	22,811	1,332
Total deductions	66,750,317	2,998,186	4,633,561	377,952	5,738,046	1,464,531	3,423,703	10,577
Change in net assets	291,684,779	8,581,465	7,373,485	3,220,300	(15,840)	5,243,471	10,327,657	(9,285)
Net assets - beginning of year	1,587,240,088	51,628,427	37,905,235	14,706,037	1,461,595	18,614,586	84,359,650	33,364
Net assets - end of year	\$ 1,878,924,867	\$ 60,209,892	\$ 45,278,720	\$ 17,926,337	\$ 1,445,755	\$ 23,858,057	\$ 94,687,307	\$ 24,079

The accompanying notes are an integral part of these financial statements.

NORTH DAKOTA PUBLIC EMPLOYEES RETIREMENT SYSTEM
Bismarck, North Dakota

Notes to Financial Statements

June 30, 2008 and 2007

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A) Reporting Entity

The Public Employees Retirement System (System) is an agency of the State of North Dakota, operating through the legislative authority of North Dakota Century Code 54-52-03. As a state agency, the System is considered to be a department of the State of North Dakota and is included in the State's Comprehensive Annual Financial Report as a pension trust fund.

The System is governed by a seven-member board. Three of the members are appointed and the remaining four are elected by the participants of the retirement plans.

The System administers four defined benefit pension plans and one defined contribution retirement plan. The System also manages and administers the retiree health insurance credit program, the uniform group insurance program, the deferred compensation program and the pretax benefits program.

For financial reporting purposes, the System has included all funds, and has considered all potential component units for which the System is financially accountable, and other organizations for which the nature and significance of their relationship with the System are such that exclusion would cause the System's financial statements to be misleading or incomplete. The Governmental Accounting Standards Board has set forth criteria to be considered in determining financial accountability. This criteria includes appointing a voting majority of an organization's governing body and (1) the ability of the System to impose its will on that organization or (2) the potential for the organization to provide specific financial benefits to, or impose specific financial burdens on the System.

Based upon these criteria, there are no component units to be included within the System as a reporting entity and the System is part of the State of North Dakota as a reporting entity.

B) Fund Financial Statements

The System's only nonfiduciary activity is the administration and management of the uniform group insurance program. This program is a business-type activity that relies to a significant extent on fees and charges for support and is shown in the separate proprietary fund financial statements.

All other activities of the system are pension and other employee benefit trust funds and are shown in the separate fiduciary fund financial statements.

NORTH DAKOTA PUBLIC EMPLOYEES RETIREMENT SYSTEM
Bismarck, North Dakota

Notes to Financial Statements - Continued

June 30, 2008 and 2007

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

C) Measurement Focus, Basis of Accounting and Financial Statement Presentation

The financial statements of the System are reported using the economic resources measurement focus and the accrual basis of accounting.

This measurement focus includes all assets and liabilities associated with the operations of the proprietary and fiduciary funds on the statements of net assets. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows.

The proprietary fund is used to account for the operations of the Uniform Group Insurance Program. The System has been given the responsibility to manage this public entity risk pool. The Uniform Group Insurance Program is an insurance purchasing pool which provides the employees of the State of North Dakota, or any of its political subdivisions, institutions, departments, or agencies, economies of scale in purchasing health, life, dental, vision and long-term care insurance. Since there is no pooling of risk, the disclosures relating to public entity risk pools are not applicable. Accordingly, this proprietary fund only reports administrative revenues and expenses.

The fiduciary fund consists of the pension and other employee benefit trust funds that are used to account for assets held by the department in a trust capacity. These include:

1. Public Employees Retirement System – a cost-sharing multiple-employer defined benefit retirement plan.
2. Highway Patrolmen's Retirement System – a single-employer defined benefit retirement plan.
3. Defined Contribution Retirement Plan – an optional defined contribution retirement plan covering specified employee positions in the State of North Dakota.
4. Retiree Health Insurance Credit Fund – an advance funded plan to offset the member's cost of health insurance during their retirement and a plan to provide health care coverage to eligible retiree's who are not yet eligible for Medicare.
5. Pretax Benefits Program – allows eligible employees to elect to reduce their salaries to pay for eligible dependent care and medical expenses.
6. Deferred Compensation Plan – voluntary, supplemental retirement plan provided in accordance with Section 457 of the Internal Revenue Code.
7. Retirement Plan for Employees of Job Service North Dakota – a single-employer defined benefit retirement plan.
8. Oasis Trust Fund – a cost-sharing multiple employer defined benefit retirement plan.

NORTH DAKOTA PUBLIC EMPLOYEES RETIREMENT SYSTEM
Bismarck, North Dakota

Notes to Financial Statements - Continued

June 30, 2008 and 2007

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

C) Measurement Focus, Basis of Accounting and Financial Statement Presentation - Continued

The System follows the pronouncements of the Governmental Accounting Standards Board (GASB), which is the nationally accepted standard setting body for establishing accounting principles generally accepted in the United States of America for governmental entities.

In accordance with GASB Statement No. 20, the System follows all applicable GASB pronouncements as well as private-sector standards of accounting and financial reporting issued on or before November 30, 1989 unless those standards conflict with GASB pronouncements. The System also has the option of following subsequent private-sector guidance for business-type activities and enterprise funds, subject to this same limitation.

Proprietary Funds are accounted for on the accrual basis of accounting. Revenues are recognized when earned, and expenses are recognized when the liability is incurred, regardless of the timing of related cash flows. The proprietary fund distinguishes operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the enterprise fund are administrative fees charged to the participants in the Uniform Group Insurance Program. Operating expenses include salaries and wages and administrative expenses. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

The fiduciary fund is accounted for on the accrual basis of accounting. Member contributions are recognized in the period in which the contributions are due. Employer contributions to each plan are recognized when due and the employer has made a formal commitment to provide the contributions. Benefits and refunds are recognized when due and payable in accordance with the terms of each system.

D) Budgetary Process

The System operates through a biennial appropriation provided by the State Legislature. The System prepares a biennial budget on the modified accrual basis, which is included in the Governor's budget presented to the General Assembly at the beginning of each legislative session. The General Assembly enacts the budgets of the various state departments through passage of specific appropriation bills. Before signing the appropriation bills, the Governor has line item veto powers over legislation, subject to legislative override. Once passed and signed, the appropriation becomes the system's financial plan for the next two years. Changes to the appropriation are subject to approval by the Emergency Commission.

Continued

NORTH DAKOTA PUBLIC EMPLOYEES RETIREMENT SYSTEM
Bismarck, North Dakota

Notes to Financial Statements - Continued

June 30, 2008 and 2007

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

D) Budgetary Process-Continued

The Statement of Appropriations has been prepared using the accrual basis of accounting. Unexpended appropriations lapse at the end of each biennium, except certain capital expenditures covered under the North Dakota Century Code (NDCC), Section 54-44.1-11. Expenditures not subject to appropriation of a specific amount include professional fees, depreciation expense, benefits and refunds paid to participants, prefunded credits applied and employee reimbursements in the Pretax Benefits Program.

There were no supplemental appropriations during the fiscal year ending June 30, 2008 and 2007.

The legal level of budgetary control is at the appropriation and expenditure line item level, with administrative controls established at lower levels of detail in certain instances.

E) Investments

Investments are reported at fair value. Quoted market prices, when available, have been used to value investments. The market values for securities that have no quoted market price represent estimated fair value. Many factors are considered in arriving at that value. International securities are valued based upon quoted foreign market prices and translated into U.S. dollars at the exchange rate in effect at June 30. In general, corporate debt securities have been valued at quoted market prices or, if not available, values are based on yields currently available on comparable securities of issuers with similar credit ratings. Mortgages have been valued on the basis of their future principal and interest payments discounted at prevailing interest rates for similar instruments. The fair value of real estate investment securities is based on appraisals plus fiscal year-to-date capital transactions. Publicly traded alternative investments are valued based on quoted market prices. When not readily available, alternative investment securities are valued using current estimates of fair value from the investment manager. Such valuations consider variables such as financial performance of the issuer, comparison of comparable companies' earnings multiples, cash flow analysis, recent sales prices of investments, withdrawal restrictions, and other pertinent information. Because of the inherent uncertainty of the valuation for these other alternative investments, the estimated fair value may differ from the values that would have been used had a ready market existed. Investments in the external investment pool are stated at fair value which is the same as the value of the pool shares.

The net increase (decrease) in fair value of investments consists of the realized gains or losses and the unrealized increase or decrease in fair value of investments during the year. Realized gains and losses on sales of investments are computed based on the difference between the sales price and the original cost of the investment sold. Realized gains and losses on investments that had been held in more than one fiscal year and sold in the current fiscal year were included as a change in the fair value of investments reported in the prior year(s) and the current year.

Continued

NORTH DAKOTA PUBLIC EMPLOYEES RETIREMENT SYSTEM
Bismarck, North Dakota

Notes to Financial Statements - Continued

June 30, 2008 and 2007

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

E) Investments-continued

Unrealized increase or decrease is computed based on changes in the fair value of investments between years. Security transactions are accounted for on a trade date basis.

Interest income is recognized when earned. Dividend income is recorded on the ex-dividend date.

Securities Lending

GASB Statement No. 28, "Accounting and Financial Reporting for Securities Lending Transactions," establishes accounting and financial reporting standards for securities lending transactions. The standard requires governmental entities to report securities lent as assets in their balance sheets. Cash received as collateral and investments made with that cash must also be reported as assets. The statement also requires the costs of the securities lending transactions to be reported as expenses separately from income received. In addition, the statement requires disclosures about the transactions and collateral related to them.

The System, through the North Dakota State Investment Board (Board) lends its securities to broker-dealers and other entities with a simultaneous agreement to return the collateral for the same securities in the future. The Board has contracted with a third party securities lending agent (Agent) to lend the System's securities portfolios. The Agent lends securities of the type on loan at June 30, 2008 for collateral in the form of cash or other securities at 102% of the loaned securities market value plus accrued interest for domestic securities and 105% of the loaned securities market value plus accrued interest for international securities. The collateral for the loans is maintained at 100% per the contractual requirements. As of June 30, 2008, the market value of the securities on loan totaled \$27,740,051; \$875,640 and \$2,746,765 for the Public Employees Retirement System, Highway Patrolmen's Retirement System and the Retirement Plan for Employees of Job Service of North Dakota, respectively. As of June 30, 2008, the total amount of cash and non-cash collateral related to these lent securities was \$28,264,719; \$891,477 and \$2,781,230 for the Public Employees Retirement System, Highway Patrolmen's Retirement System and the Retirement Plan for Employees of Job Service of North Dakota, respectively.

At June 30, 2008, the System has no credit risk exposure to borrowers because the amounts the System owes the borrowers exceed the amounts the borrowers owe the System.

The average duration of the collateral investments as of June 30, 2008 was 6 days. The average weighted maturity of collateral investments as of June 30, 2008 was 174 days. The interest rate sensitivity (duration) of the securities on loan matched the duration of the collateral investments.

NORTH DAKOTA PUBLIC EMPLOYEES RETIREMENT SYSTEM
Bismarck, North Dakota

Notes to Financial Statements - Continued

June 30, 2008 and 2007

Continued

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

E) Investments-continued

The Agent provides indemnification if the borrowers fail to return the underlying securities (and if the collateral is inadequate to replace the securities lent) or fails to pay income distributions on them. All open securities loans can be terminated on demand by either the lender or the borrower. All term securities loans can be terminated with five days notice by either the lender or the borrower. Cash collateral is invested in accordance with the investment guidelines approved by the System. The System cannot pledge or sell collateral securities received unless the borrower defaults.

Derivative Securities

The System's investment policy allows investment managers to use derivative securities. Managers are specifically permitted to use Treasury futures and options, S & P 500 index futures and options, and currency forwards and futures to hedge portfolio risk, but not to speculate or to leverage the portfolio. Managers may use their discretion to use other derivatives to enhance returns, reduce risk, or facilitate the management of index funds. The System's policy with respect to these derivatives is that their use may not increase the credit, market or legal risk level associated with a fully invested portfolio of common stocks or fixed income obligations, depending on the manager's designated role.

F) Accounts Receivable and Credit Policy

Accounts receivable primarily include amounts due for contributions, insurance premiums, employee pretax benefit deductions and accrued interest on investments. Management reviews all receivables at year-end and assesses collectibility. All remaining receivables are considered collectible.

G) Capital Assets and Depreciation

Capital assets are presented in the accompanying financial statements at cost or estimated historical cost. Donated capital assets are stated at fair market value at the time of donation. Capital assets acquired via lease agreements are capitalized at the inception of the agreement. Additions, improvements and other capital outlays that significantly extend the useful life of an asset are capitalized. Other costs incurred for repairs and maintenance are expensed as incurred. For the years ending June 30, 2008 and 2007 the System capitalized equipment costing over \$5,000 in accordance with Section 54-27-21 of the North Dakota Century Code.

The capital assets are depreciated on a straight-line basis over estimated useful lives ranging from 5 to 10 years.

NORTH DAKOTA PUBLIC EMPLOYEES RETIREMENT SYSTEM
Bismarck, North Dakota

Notes to Financial Statements - Continued

June 30, 2008 and 2007

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

H) Accrued Compensated Absences

Annual leave is a part of permanent employees' compensation as set forth in Section 54-06-14 of the North Dakota Century Code. Employees are entitled to earn annual leave based on tenure of employment, within a range of a minimum of one working day per month of employment, to a maximum of two working days per month of employment, to be fixed by rules and regulations adopted by the employing unit. No more than 240 hours of annual leave may be carried forward beyond April 30th of each year. Employees are paid for unused annual leave upon termination or retirement. Permanent employees accrue sick leave from the first day of employment at the rate of eight hours per month with unlimited accumulation. Employees with at least 10 years of state employment are paid one-tenth of their accumulated sick leave under Section 54-06-14 of the North Dakota Century Code when the employee leaves the employ of the state.

The System's liability for accumulated unpaid leave is reported in the applicable funds.

I) Deferred Contributions / Premiums

Deferred contributions consist of monies collected from participating employers, for retirement contributions, before the contributions are due. Deferred premiums consist of monies collected by the System from individuals or participating employers, for insurance premiums, before the premiums are due.

J) Transfers To Other Plans

Transfers to other plans consist of monies transferred from the Public Employees Retirement System Defined Benefit Plan to the Defined Contribution Retirement Plan pursuant to Section 54-52.6 Subsection 3 of the North Dakota Century Code. Each eligible employee who elects to terminate membership in the Defined Benefit Plan has a lump sum amount transferred to the participating member's account under the Defined Contribution Retirement Plan. For new employees electing to transfer to the Defined Contribution Retirement Plan, the lump sum transferred is the actual employee and employer contributions plus interest.

K) Transfers from External Plans

Pursuant to North Dakota Century Code section 54-52-02.14, the System received a one-time transfer of assets for employees of the state board of career and technical education who elected to transfer from the North Dakota Teacher's Fund for Retirement to the North Dakota Public Employees Retirement System.

NORTH DAKOTA PUBLIC EMPLOYEES RETIREMENT SYSTEM
Bismarck, North Dakota

Notes to Financial Statements - Continued

June 30, 2008 and 2007

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

L) Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period.

Actual results could differ from those estimates. The System utilizes various investment instruments. Investment securities, in general, are exposed to various risks, such as interest rate, credit, and overall market volatility. Due to the level of risk associated with certain investment securities, it is reasonably possible that changes in the values of investment securities will occur in the near term and that such change could materially affect the amounts reported in the statement of net assets.

NOTE 2 DEPOSITS AND INVESTMENTS

Deposits

According to North Dakota Century Code 21-04-01, the System is required to bank at the state-owned and operated Bank of North Dakota. The System receives interest for funds on deposit in all accounts.

Cash and cash equivalents for reporting purposes, includes cash and short-term, highly liquid investments that are readily convertible to known amounts of cash and so near their maturity that they present insignificant risk of changes in value because of changes in interest rates. This includes investments with original maturity of three months or less. Investments are stated at fair value.

NORTH DAKOTA PUBLIC EMPLOYEES RETIREMENT SYSTEM
Bismarck, North Dakota

Notes to Financial Statements - Continued

June 30, 2008 and 2007

NOTE 2 DEPOSITS AND INVESTMENTS - Continued

	<u>2008</u>	<u>2007</u>
Cash Deposits at the Bank of North Dakota recorded as Cash and Cash Equivalents	\$ 2,499,808	\$ 3,385,098
Cash Deposits at the Bank of North Dakota recorded as Investments	10,000	20,000
Cash Deposits at State Treasury recorded as Cash and Cash Equivalents	872,008	1,268,554
Cash held by the North Dakota Retirement and Investment Office recorded as Cash and Cash Equivalents	4,422,951	4,108,988
Guaranteed Investment Contract with Blue Cross Blue Shield recorded as Cash and Cash Equivalents	2,055,417	1,501,026
	<u>\$ 9,860,184</u>	<u>\$ 10,283,666</u>

At June 30, 2008 and 2007 the carrying amount of the System's cash deposits were \$9,860,184 and \$10,283,666, and the bank balances were \$9,926,538 and \$10,418,215. The System had \$10,000 and \$20,000 certificates of deposit recorded as investments at June 30, 2008 and June 30, 2007, respectively. All of the System's deposits are uncollateralized, a class three risk as defined by the Government Accounting Standards Board.

Custodial Risk

For deposits, custodial risk is the risk that in the event of the failure of a depository financial institution, the System will not be able to recover the deposits. The System does not have a formal policy that limits custodial risk for deposits. Deposits at the Bank of North Dakota and the State Treasury are uncollateralized but are guaranteed by the State of North Dakota (NDCC Section 6-09-10).

NORTH DAKOTA PUBLIC EMPLOYEES RETIREMENT SYSTEM
Bismarck, North Dakota

Notes to Financial Statements - Continued

June 30, 2008 and 2007

NOTE 2 DEPOSITS AND INVESTMENTS - Continued

Investments

Total investments of the System at fair value as of June 30, 2008 and 2007 consisted of the following:

	2008	2007
Equity securities	\$ 993,563,831	\$ 1,174,411,068
Bonds and notes	716,136,167	680,392,439
Real estate	121,924,794	114,219,432
Alternative investments	99,234,751	85,207,940
Mutual funds	14,869,222	15,557,155
Invested cash	9,914,159	19,961,000
Deferred compensation plans:		
Annuities	105,731	141,030
Mutual funds	23,721,304	23,706,450
Securities lending short-term collateral investment pool	31,937,426	172,981,580
	<u>\$ 2,011,407,385</u>	<u>\$ 2,286,578,094</u>

The calculation of realized gains and losses is independent of the calculation of net increase (decrease) in the fair value of plan investments and unrealized gains and losses on investments sold in the current year that had been held for more than one year and were included in the net increase (decrease) reported in the prior year(s) and the current year.

All investments of the fund, except for the Defined Contribution Retirement Plan, Deferred Compensation Plan and Oasis Trust Fund are to be made by the North Dakota State Investment Board (SIB). Chapter 21-10-07 of the North Dakota Century Code requires that all investments made by this state agency, be made using the prudent investor rule.

Investments of the Oasis Fund consisted of a \$10,000 certificate of deposit on June 30, 2008, and two separate \$10,000 certificates of deposit on June 30, 2007, held at the Bank of North Dakota, valued at cost. Investments of the Defined Contribution Retirement Plan and the Deferred Compensation Plan are participant directed and are held by Fidelity Investments.

Credit Risk

All investments of the fund, except for the Defined Contribution Retirement Plan, Deferred Compensation Plan and Oasis Trust Fund, are invested in an external investment pool managed by SIB. The pool is not rated. The System does not have a formal credit risk policy that limits the credit risk of the investments.

Investments of the Defined Contribution Retirement Plan and the Deferred Compensation Plan are invested in mutual funds directed by the participants. The mutual funds are not rated.

NORTH DAKOTA PUBLIC EMPLOYEES RETIREMENT SYSTEM
Bismarck, North Dakota

Notes to Financial Statements - Continued

June 30, 2008 and 2007

NOTE 2 DEPOSITS AND INVESTMENTS - Continued

Interest Rate Risk

Interest rate risk is the risk that changes in interest rates of debt securities will adversely affect the fair value of an investment. The System does not have a formal investment policy that limits investment maturities as a means of managing its exposure to potential fair value losses arising from future changes in interest rates. The SIB has chosen to use the Segmented Time Distribution disclosure method. Tables detailing the System's portion of the investment pool are reported below. Readers may refer to the North Dakota Retirement and Investment Office financial statements regarding highly sensitive securities that are disclosed at the SIB level.

PERS and HPRS Plan

Type (In Thousands)	Market Value	2008			
		Less Than 1 Year	1-6 Years	6-10 Years	Over 10 Years
Asset Backed Securities	\$ 12,278	\$ -	\$ 373	\$ 226	\$ 11,679
Bank Loans	4,416	594	3,202	620	-
Commercial Mortgage-Backed	3,467	-	9	-	3,457
Corporate Bonds	183,367	2,406	48,434	76,547	55,980
Corporate Convertible Bonds	17,400	249	6,913	-	10,239
Government Agencies	17,418	2,096	7,351	4,909	3,062
Government Bonds	52,509	2,669	29,970	9,312	10,558
Government Mortgage-Backed	15,769	-	-	7	15,762
Hedge Multi-Strategy	35,629	35,629	-	-	-
Index Linked Government Bonds	1,197	-	7	271	919
Municipal/Provincial Bonds	3,484	-	290	2,057	1,137
Non-Government Backed CMOs	13,313	299	31	-	12,982
Short Term Bills and Notes	5,089	5,089	-	-	-
Pooled Investments	82,177	2,905	34,879	44,185	208
Total Debt Securities	<u>\$ 447,513</u>	<u>\$ 51,936</u>	<u>\$ 131,459</u>	<u>\$ 138,134</u>	<u>\$ 125,983</u>

NORTH DAKOTA PUBLIC EMPLOYEES RETIREMENT SYSTEM
Bismarck, North Dakota

Notes to Financial Statements - Continued

June 30, 2008 and 2007

NOTE 2 DEPOSITS AND INVESTMENTS – Continued

Type (In Thousands)	Market Value	2007			
		Less Than 1 Year	1-6 Years	6-10 Years	Over 10 Years
Asset Backed Securities	\$ 14,343	\$ -	\$ 78	\$ 185	\$ 14,080
Commercial Mortgage-Backed	2,738	-	26	-	2,712
Corporate Bonds	169,069	3,594	50,632	52,940	61,903
Corporate Convertible Bonds	27,433	89	9,915	162	17,267
Government Agencies	23,074	920	14,296	3,311	4,547
Government Bonds	86,737	7,983	43,628	11,625	23,501
Government Mortgage-Backed	24,283	-	299	7	23,977
Index Linked Government Bonds	2,962	-	23	1,088	1,851
Municipal/Provincial Bonds	3,970	200	343	2,523	904
Non-Government Backed CMOs	7,877	-	407	-	7,470
Short Term Bills and Notes	5,625	5,625	-	-	-
Pooled Investments	92,400	-	51,169	41,231	-
Total Debt Securities	<u>\$ 460,511</u>	<u>\$ 18,411</u>	<u>\$ 170,816</u>	<u>\$ 113,072</u>	<u>\$ 158,212</u>

Job Service Retirement Plan

Type (In Thousands)	Market Value	2008			
		Less Than 1 Year	1-6 Years	6-10 Years	Over 10 Years
Asset Backed Securities	\$ 356	\$ -	\$ 1	\$ 16	\$ 339
Commercial Mortgage-Backed	398	-	1	-	397
Corporate Bonds	11,116	196	3,491	4,198	3,231
Corporate Convertible Bonds	1,658	-	584	-	1,074
Government Agencies	1,564	47	765	401	351
Government Bonds	4,420	134	2,640	530	1,116
Government Mortgage-Backed	1,811	-	-	1	1,810
Hedge Multi-Strategy	1,728	1,728	-	-	-
Index Linked Government Bonds	138	-	1	31	106
Municipal/Provincial Bonds	281	-	33	117	131
Non-Government Backed CMOs	1,069	34	-	-	1,035
Short Term Bills and Notes	310	310	-	-	-
Pooled Investments	6,214	-	4,004	2,210	-
Total Debt Securities	<u>\$ 31,063</u>	<u>\$ 2,449</u>	<u>\$ 11,520</u>	<u>\$ 7,504</u>	<u>\$ 9,590</u>

NORTH DAKOTA PUBLIC EMPLOYEES RETIREMENT SYSTEM
Bismarck, North Dakota

Notes to Financial Statements - Continued

June 30, 2008 and 2007

NOTE 2 DEPOSITS AND INVESTMENTS - Continued

Type (In Thousands)	Market Value	2007			
		Less Than 1 Year	1-6 Years	6-10 Years	Over 10 Years
Asset Backed Securities	\$ 466	\$ -	\$ 9	\$ 22	\$ 435
Commercial Mortgage-Backed	323	-	3	-	320
Corporate Bonds	11,629	338	4,168	3,242	3,881
Corporate Convertible Bonds	2,923	-	904	-	2,019
Government Agencies	2,429	109	1,491	292	537
Government Bonds	7,432	430	4,165	849	1,988
Government Mortgage-Backed	2,868	-	35	1	2,832
Index Linked Government Bonds	350	-	3	128	219
Municipal/Provincial Bonds	323	24	41	151	107
Non-Government Backed CMOs	925	-	43	-	882
Short Term Bills and Notes	288	288	-	-	-
Pooled Investments	8,267	-	6,044	2,223	-
Total Debt Securities	<u>\$ 38,223</u>	<u>\$ 1,189</u>	<u>\$ 16,906</u>	<u>\$ 6,908</u>	<u>\$ 13,220</u>

Retiree Health Insurance Credit Fund

All securities subject to interest rate risk disclosure in the Retiree Health Insurance Credit Fund are pooled investments maturing in over 10 years. The market value of these securities is \$13,997.

Foreign Currency Risk

Foreign currency risk is the risk that changes in exchange rates will adversely affect the fair value of an investment or deposit. The System does not have a formal investment policy governing foreign currency risk. The System is invested in an external investment pool managed by SIB. A table detailing the exposure to foreign currency through the System's portion of the investment pool is reported below.

NORTH DAKOTA PUBLIC EMPLOYEES RETIREMENT SYSTEM
Bismarck, North Dakota

Notes to Financial Statements - Continued

June 30, 2008 and 2007

NOTE 2 DEPOSITS AND INVESTMENTS - Continued

PERS and HPRS Plan

Currency (In thousands)	2008			
	Short term	Debt	Equity	Total
Australian dollar	\$ (1,359)	\$ 4,912	\$ 4,356	\$ 7,909
Brazilian real	-	3,178	2,139	5,317
British pound sterling	(10,093)	2,827	17,080	9,814
Canadian dollar	(5,950)	1,886	6,366	2,302
Danish krone	(341)	-	969	628
Euro	(14,683)	-	34,751	20,068
Hong Kong dollar	(298)	-	1,449	1,151
Iceland krona	-	1,515	-	1,515
Indonesian rupiah	10	1,802	-	1,812
Japanese yen	(14,565)	-	27,541	12,976
Malaysian ringgit	-	3,317	-	3,317
Mexican peso	54	3,647	-	3,701
New Zealand dollar	14	1,796	-	1,810
Norwegian krone	(376)	584	1,741	1,949
Polish zloty	-	2,551	-	2,551
Singapore dollar	(257)	4,420	914	5,077
South African rand	-	1,676	-	1,676
South Korean won	-	383	-	383
Swedish krona	(633)	1,701	1,931	2,999
Swiss franc	(5,645)	-	10,434	4,789
Thai baht	-	-	-	-
Turkish lira	729	-	-	729
International commingled funds (various currencies)	-	44,185	142,185	186,370
	<u>\$ (53,393)</u>	<u>\$ 80,380</u>	<u>\$ 251,856</u>	<u>\$ 278,843</u>

NORTH DAKOTA PUBLIC EMPLOYEES RETIREMENT SYSTEM
Bismarck, North Dakota

Notes to Financial Statements - Continued

June 30, 2008 and 2007

NOTE 2 DEPOSITS AND INVESTMENTS - Continued

PERS and HPRS Plan-Continued

Currency (In thousands)	2007			
	Short term	Debt	Equity	Total
Australian dollar	\$ (1,517)	\$ 4,707	\$ 6,318	\$ 9,508
Brazilian real	-	3,143	-	3,143
British pound sterling	(12,476)	3,082	29,007	19,613
Canadian dollar	(4,436)	2,565	5,671	3,800
Columbian peso	-	294	-	294
Danish krone	(267)	-	907	640
Euro	(23,232)	4,996	56,261	38,025
Hong Kong dollar	(1,506)	-	3,572	2,066
Indonesian rupiah	-	2,126	-	2,126
Japanese yen	(10,275)	-	34,666	24,391
Malaysian ringgit	-	2,098	-	2,098
Mexican peso	-	3,623	-	3,623
New Zealand dollar	-	1,603	-	1,603
Norwegian krone	(318)	-	1,577	1,259
Polish zloty	35	3,075	-	3,110
Singapore dollar	(275)	4,471	1,394	5,590
South African rand	-	2,101	-	2,101
South Korean won	3	439	767	1,209
Swedish krona	(767)	1,700	2,976	3,909
Swiss franc	(4,829)	-	10,310	5,481
Thai baht	(1)	-	-	(1)
International commingled funds (various currencies)	-	41,231	150,848	192,079
	<u>\$ (59,861)</u>	<u>\$ 81,254</u>	<u>\$ 304,274</u>	<u>\$ 325,667</u>

NORTH DAKOTA PUBLIC EMPLOYEES RETIREMENT SYSTEM
Bismarck, North Dakota

Notes to Financial Statements - Continued

June 30, 2008 and 2007

NOTE 2 DEPOSITS AND INVESTMENTS - Continued

Job Service Retirement Plan

Currency (In thousands)	2008			
	Short term	Debt	Equity	Total
Australian dollar	\$ (33)	\$ 246	\$ 105	\$ 318
Brazilian real	-	102	104	206
British pound sterling	(313)	141	412	240
Canadian dollar	(144)	67	154	77
Danish krone	(8)	-	23	15
Euro	(354)	-	839	485
Hong Kong dollar	(7)	-	35	28
Iceland krona	-	49	-	49
Indonesian rupiah	-	52	-	52
Japanese yen	(351)	-	690	339
Malaysian ringgit	-	149	-	149
Mexican peso	3	107	-	110
New Zealand dollar	1	89	-	90
Norwegian krone	(9)	29	42	62
Polish zloty	-	128	-	128
Singapore dollar	(6)	142	22	158
South African rand	-	84	-	84
South Korean won	-	-	-	-
Swedish krona	(15)	85	47	117
Swiss franc	(136)	-	275	139
Turkish lira	36	-	-	36
International commingled funds (various currencies)	-	2,210	1,335	3,545
	<u>\$ (1,336)</u>	<u>\$ 3,680</u>	<u>\$ 4,083</u>	<u>\$ 6,427</u>

NORTH DAKOTA PUBLIC EMPLOYEES RETIREMENT SYSTEM
Bismarck, North Dakota

Notes to Financial Statements - Continued

June 30, 2008 and 2007

NOTE 2 DEPOSITS AND INVESTMENTS - Continued

Job Service Retirement Plan-Continued

Currency (In thousands)	2007			
	Short term	Debt	Equity	Total
Australian dollar	\$ (36)	\$ 254	\$ 150	\$ 368
Brazilian real	-	115	-	115
British pound sterling	(384)	160	688	464
Canadian dollar	(105)	114	134	143
Danish krone	(6)	-	22	16
Euro	(693)	269	1,334	910
Hong Kong dollar	(36)	-	85	49
Indonesian rupiah	-	75	-	75
Japanese yen	(70)	-	822	752
Malaysian ringgit	-	113	-	113
Mexican peso	-	109	-	109
New Zealand dollar	-	85	-	85
Norwegian krone	(8)	-	37	29
Polish zloty	2	166	-	168
Singapore dollar	(7)	165	33	191
South African rand	-	113	-	113
South Korean won	-	-	18	18
Swedish krona	(18)	92	71	145
Swiss franc	(114)	-	244	130
International commingled funds (various currencies)		2,223	934	3,157
	<u>\$ (1,475)</u>	<u>\$ 4,053</u>	<u>\$ 4,572</u>	<u>\$ 7,150</u>

NORTH DAKOTA PUBLIC EMPLOYEES RETIREMENT SYSTEM
Bismarck, North Dakota

Notes to Financial Statements - Continued

June 30, 2008 and 2007

NOTE 3 DUE TO/FROM FIDUCIARY AND PROPRIETARY FUNDS AND STATE AGENCY TRANSACTIONS

The June 30, 2008 due from/to fiduciary and proprietary funds are summarized as follows:

<u>Fund</u>	<u>Due From Fiduciary and Proprietary Funds</u>	<u>Due To Fiduciary and Proprietary Funds</u>
Fiduciary		
Public Employees Retirement System	\$ 79,284	\$ -
Highway Patrolmen's Retirement System	-	2,382
Retiree Health Insurance Credit Fund	-	201,724
Retirement Plan for Employees of Job Service North Dakota	-	13,918
Pretax Benefits Program	24,850	-
Deferred Compensation Plan	42,079	-
Defined Contribution Plan	-	1,970
Proprietary		
Uniform Group Insurance Program	73,781	-
	<u>\$ 219,994</u>	<u>\$ 219,994</u>

The June 30, 2007 due from/to fiduciary and proprietary funds are summarized as follows:

<u>Fund</u>	<u>Due From Fiduciary and Proprietary Funds</u>	<u>Due To Fiduciary and Proprietary Funds</u>
Fiduciary		
Public Employees Retirement System	\$ 144,905	\$ 5,470
Highway Patrolmen's Retirement System	-	68,302
Retiree Health Insurance Credit Fund	-	116,255
Retirement Plan for Employees of Job Service North Dakota	-	16,296
Pretax Benefits Program	9,800	-
Deferred Compensation Plan	16,243	-
Proprietary		
Uniform Group Insurance Program	35,375	-
	<u>\$ 206,323</u>	<u>\$ 206,323</u>

These balances are a result of a time lag between the dates the expenditures are incurred, the allocations determined, and the transactions are entered into the accounting system.

NORTH DAKOTA PUBLIC EMPLOYEES RETIREMENT SYSTEM
Bismarck, North Dakota

Notes to Financial Statements - Continued

June 30, 2008 and 2007

**NOTE 3 DUE TO/FROM FIDUCIARY AND PROPRIETARY FUNDS AND STATE AGENCY
TRANSACTIONS-Continued**

June 30, 2008 due from/to state agencies are summarized as follows:

Fund	Due From State Agencies	Due To State Agencies
Fiduciary		
Public Employees Retirement System		
Department of Transportation	\$ 33,319	\$ 72
Supreme Court	20	-
School for the Blind	40	-
Highway Patrol	80	-
Department of Agriculture	20	-
Game and Fish Department	20	-
ITD	-	16,956
Attorney General	-	1,216
Office of Management and Budget	-	5,363
Total	<u>\$ 33,499</u>	<u>\$ 23,607</u>
Defined Contribution Plan		
ITD	<u>\$ -</u>	<u>\$ 18</u>
Pretax Benefits Program		
Office of Management and Budget	\$ -	\$ 1,180
ITD	-	666
Attorney General	-	304
Total	<u>\$ -</u>	<u>\$ 2,150</u>
Deferred Compensation Plan		
Office of Management and Budget	\$ -	\$ 1,852
ITD	-	1,013
Attorney General	-	1,654
Total	<u>\$ -</u>	<u>\$ 4,519</u>
Proprietary		
Uniform Group Insurance Program		
Department of Transportation	\$ -	\$ 71
Office of Management and Budget	-	4,838
ITD	-	7,170
Attorney General	-	1,076
Total	<u>\$ -</u>	<u>\$ 13,155</u>

NORTH DAKOTA PUBLIC EMPLOYEES RETIREMENT SYSTEM
Bismarck, North Dakota

Notes to Financial Statements - Continued

June 30, 2008 and 2007

NOTE 3 DUE TO/FROM FIDUCIARY AND PROPRIETARY FUNDS AND STATE AGENCY TRANSACTIONS-Continued

The June 30, 2007 due from/to state agencies are summarized as follows:

<u>Fund</u>	<u>Due From State Agencies</u>	<u>Due To State Agencies</u>
Fiduciary		
Public Employees Retirement System		
ITD	\$ -	\$ 8,459
Attorney General	-	938
Central Services	-	657
Health	394	-
Total	<u>\$ 394</u>	<u>\$ 10,054</u>
Defined Contribution Plan		
ITD	-	17
Total	<u>\$ -</u>	<u>\$ 17</u>
Pretax Benefits Program		
ITD	-	351
Central Services	-	229
Attorney General	-	142
Total	<u>\$ -</u>	<u>\$ 722</u>
Deferred Compensation Plan		
ITD	\$ -	\$ 746
Attorney General	-	458
Central Services	-	444
Total	<u>\$ -</u>	<u>\$ 1,648</u>
Proprietary		
Uniform Group Insurance Program		
Department of Transportation	\$ 2	\$ 141
NDPERS	555	555
Human Services	557	-
ITD	-	5,075
Attorney General	-	707
Central Services	-	526
Grafton Development Center	1,112	-
Jamestown State Hospital	1,108	-
Public Service Commission	555	-
Workforce Safety	554	-
Adjutant General	1,662	-
Department of Commerce	554	-
Game and Fish	554	-
Total	<u>\$ 7,213</u>	<u>\$ 7,004</u>

These balances are a result of a time lag between the dates that services are provided, the payments are made, and the transactions are entered into the accounting system.

NORTH DAKOTA PUBLIC EMPLOYEES RETIREMENT SYSTEM
Bismarck, North Dakota

Notes to Financial Statements - Continued

June 30, 2008 and 2007

NOTE 3 DUE TO/FROM FIDUCIARY AND PROPRIETARY FUNDS AND STATE AGENCY TRANSACTIONS-Continued

The June 30, 2008 transfers in/out are summarized as follows:

<u>Fund Type/Fund</u>	<u>Transfers In</u>	<u>Transfers Out</u>
Fiduciary Funds		
Defined Contribution Retirement Fund	\$ 76,487	\$ -
Pretax Benefit Program	-	866,895
Deferred Compensation Plan	866,895	-
Public Employees Retirement System	-	76,487

The June 30, 2007 operating transfers in/out are summarized as follows:

<u>Fund Type/Fund</u>	<u>Transfers In</u>	<u>Transfers Out</u>
Fiduciary Funds		
Defined Contribution Retirement Fund	\$ 39,829	\$ -
Pretax Benefit Program	-	435,000
Deferred Compensation Plan	435,000	-
Public Employees Retirement System	-	38,829

The transfer to the Defined Contribution Retirement Fund is for those employees electing to transfer from the defined benefit plan. The transfer to the Deferred Compensation Plan is to cover administrative expenses with FICA savings earned in the Pretax Benefit Program.

NOTE 4 CAPITAL ASSETS

A statement of changes in equipment and accumulated depreciation for the System for the year ended June 30, 2008 and 2007 is as follows:

	<u>Balance 7/01/07</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance 6/30/08</u>
Proprietary Funds:				
Capital assets not being depreciated:				
Software (not in production)	<u>\$ -</u>	<u>\$ 960,988</u>	<u>\$ -</u>	<u>\$ 960,988</u>
Fiduciary Funds:				
Capital assets not being depreciated:				
Software (not in production)	<u>\$ -</u>	<u>\$ 2,382,649</u>	<u>\$ -</u>	<u>\$ 2,382,649</u>
Capital assets being depreciated:				
Equipment	<u>59,924</u>	<u>-</u>	<u>48,397</u>	<u>11,527</u>
Less: Accumulated depreciation for:				
Equipment	<u>54,848</u>	<u>1,385</u>	<u>48,397</u>	<u>7,836</u>
Total capital assets being depr. net	<u>5,076</u>	<u>(1,385)</u>	<u>-</u>	<u>3,691</u>
Fiduciary Funds capital assets, net	<u>\$ 5,076</u>	<u>\$ 2,381,264</u>	<u>\$ -</u>	<u>\$ 2,386,340</u>

NORTH DAKOTA PUBLIC EMPLOYEES RETIREMENT SYSTEM
Bismarck, North Dakota

Notes to Financial Statements - Continued

June 30, 2008 and 2007

NOTE 4 CAPITAL ASSETS-Continued

	Balance 7/01/06	Additions	Deletions	Balance 6/30/07
Fiduciary Funds:				
Capital assets being depreciated:				
Equipment	\$ 54,384	\$ 5,540	\$ -	\$ 59,924
Less: Accumulated depreciation for:				
Equipment	52,482	2,366	-	54,848
Total capital assets being depr. net	1,902	3,174	-	5,076
 Fiduciary Funds capital assets, net	 \$ 1,902	 \$ 3,174	 \$ -	 \$ 5,076

NOTE 5 LEASE OBLIGATIONS

Operating Lease

The department has entered into an operating lease for office space until June 30, 2009. The lease contains a clause stating that renewal is dependent on appropriation funding by the State Legislature. Lease obligations for operating and capital leases are payable from all funds of the System. Expenditures for the operating lease were \$107,629 and \$90,528 for the year ended June 30, 2008 and June 30, 2007. The future minimum lease payments for the fiscal year ending June 30, 2009 is \$108,600.

NOTE 6 CHANGE IN LONG-TERM LIABILITIES

	Proprietary Fund	Fiduciary Fund
	Accrued Compensated Absences	Accrued Compensated Absences
Balance - June 30, 2006	\$ 49,237	\$ 99,655
Increases	23,977	65,930
Decreases	(31,424)	(50,675)
Balance - June 30, 2007	41,790	114,910
Increases	30,069	79,812
Decreases	(25,979)	(72,945)
Balance - June 30, 2008	\$ 45,880	\$ 121,777
 Balance - due within one year	 \$ 2,496	 \$ 6,625

For the government activities, the accrued annual compensated absences is generally liquidated by excess revenue in the Uniform Group Insurance Program and the Pension Trust Funds.

NORTH DAKOTA PUBLIC EMPLOYEES RETIREMENT SYSTEM
Bismarck, North Dakota

Notes to Financial Statements - Continued

June 30, 2008 and 2007

NOTE 7 NORTH DAKOTA PUBLIC EMPLOYEES RETIREMENT SYSTEM

All eligible employees of the System, except those electing to participate in the North Dakota Defined Contribution Retirement Plan, contribute to the North Dakota Public Employees Retirement System (PERS), a state-wide cost-sharing multiple-employer defined benefit pension plan which is detailed in the notes that follow.

The System is required to contribute to PERS at an actuarially determined rate for permanent employees. The System's contributions to PERS for the years ended June 30, 2008, 2007 and 2006, were \$104,483, \$86,370 and \$81,231 equal to the required contributions for each year.

There were no contributions to the North Dakota Defined Contribution Retirement Plan as none of the eligible employees of the System have elected to participate in this plan.

NOTE 8 DESCRIPTION OF PLANS

A) General

The System administers four defined benefit pension plans and a defined contribution plan. The Public Employees Retirement System (PERS) is a cost-sharing multiple-employer retirement plan. The PERS was established July 1, 1966 as a defined contribution plan and was changed to a defined benefit plan by the 1977 North Dakota Legislature. The PERS is administered in accordance with Chapter 54-52 of the North Dakota Century Code. The Highway Patrolmen's Retirement System (HPRS) was established July 1, 1949 and is administered in accordance with Chapter 39-03 of the North Dakota Century Code. The HPRS is a single- employer defined benefit plan. The North Dakota Defined Contribution Retirement Plan was established on January 1, 2000 and is administered in accordance with Chapter 54-52.6 of the North Dakota Century Code. The Retirement Plan for Employees of Job Service North Dakota is a single-employer defined benefit public employee retirement plan administered by the Agency. The plan is established under NDCC 52-11-01 with benefit provisions established through the plan document, as amended. The OASIS (Old-Age and Survivor Insurance System) is a cost-sharing, multi-employer defined benefit public retirement plan. The trust fund was established effective July 1, 1947 by NDCC 52-09.

The costs of administering the plans are financed through the contributions and investment earnings of each plan.

The following brief description of the PERS and the HPRS, the Defined Contribution Plan, the Retirement Plan for Employees of Job Service North Dakota and OASIS is provided for general information purposes only. Participants should refer to the applicable chapters of the North Dakota Century Code for more complete information.

Continued

NORTH DAKOTA PUBLIC EMPLOYEES RETIREMENT SYSTEM
Bismarck, North Dakota

Notes to Financial Statements - Continued

June 30, 2008 and 2007

NOTE 8 DESCRIPTION OF PLANS - Continued

A) General – Continued

The PERS covers substantially all employees of the State of North Dakota, its agencies and various participating political subdivisions (Main System). It also covers Supreme and District Court Judges and the National Guard Security Officers and Firefighters and as of August 1, 2003, peace officers and correctional officers employed by political subdivisions. The HPRS covers substantially all sworn officers of the North Dakota Highway Patrol. The Defined Contribution Plan covers state employees who are in positions not classified by the central personnel division of the State of North Dakota. Employees of the judicial branch or the Board of Higher Education and State institutions under the jurisdiction of the Board of Higher Education are not eligible to participate in the Defined Contribution Plan. The Retirement Plan for Employees of Job Service North Dakota is limited to employees participating in the plan as of September 30, 1980. Participation in the OASIS plan is limited to eligible employees and their beneficiaries as of April 23, 1957.

The systems are not subject to the provisions of the Employee Retirement Income Security Act of 1974. The number of participating political subdivisions in the PERS was:

	2008	2007
Cities	77	74
Counties	48	47
School Districts	108	102
Other	63	56
Total Participating Political Subdivisions	<u>296</u>	<u>279</u>

Employee membership data is as follows:

	PERS		HPRS		Job Service		OASIS	
	2008	2007	2008	2007	2008	2007	2008	2007
Retirees and beneficiaries								
currently receiving benefits	6,836	6,513	105	101	216	220	1	1
Special prior service retirees	28	37	-	-	-	-	-	-
Terminated vested participants	3,154	3,003	4	5	4	5	-	-
Inactive participants	1,995	1,860	2	3	-	-	-	-
Active plan participants								
Vested	13,996	13,853	64	68	38	40	-	-
Nonvested	5,300	4,699	66	65	-	-	-	-
Total plan membership	<u>31,309</u>	<u>29,965</u>	<u>241</u>	<u>242</u>	<u>258</u>	<u>265</u>	<u>1</u>	<u>1</u>

Continued

NORTH DAKOTA PUBLIC EMPLOYEES RETIREMENT SYSTEM
Bismarck, North Dakota

Notes to Financial Statements - Continued

June 30, 2008 and 2007

NOTE 8 DESCRIPTION OF PLANS - Continued

A) General – Continued

Every permanent state employee who is at least 18 years old and who is in a position not classified by the central personnel division of the State of North Dakota may be eligible to participate in a defined contribution pension plan administered by the North Dakota Public Employees Retirement System. Employees of the judicial branch or the Board of Higher Education and State Institutions under the jurisdiction of the Board of Higher Education are not eligible to participate in the Plan.

The defined contribution plan had 297 and 301 participants as of June 30, 2008 and 2007, respectively.

Investments—Current investment guidelines set by the System's Board specify the percentage of assets to be invested in various types of investments (equities, fixed income securities, real estate, private equity and cash). The overall long-term investment objective for the System's plans is to match or exceed the expected rate of return (7.5% - 8.0%), but at a minimum is not less than the actuarially determined percentage required to pay future benefits. Long-term performance goals are set and evaluated by the boards of SIB and the System for each type of investment.

Realized gains and losses—Realized gains and losses on sales of investments are components of net change in fair value of investments are computed as described in Note 1. For the years ended June 30, 2008 and 2007, the following are the net realized gains:

	2008	2007
Public Employees Retirement	\$30,091,345	\$ 109,562,936
Highway Patrolmen's Retirement	\$ 957,858	\$ 3,546,888
Retiree Health Insurance Credit	\$ (2,033,070)	\$ 7,278,988
Defined Contribution	\$ 158,789	\$ 163,352
Deferred Compensation	\$ 233,420	\$ 327,205
Job Service Plan	\$ 158,027	\$ 4,415,569

Investment expense of the fund, except for the Defined Contribution Retirement Plan and the Deferred Compensation Plan consists of those administrative expenses directly related to the RIO investment operations. Investment expense of the Defined Contribution Retirement Plan and the Deferred Compensation Plan consist of administrative expenses directly related to each plan. All expenses are paid out of plan assets.

NORTH DAKOTA PUBLIC EMPLOYEES RETIREMENT SYSTEM
Bismarck, North Dakota

Notes to Financial Statements - Continued

June 30, 2008 and 2007

NOTE 8 DESCRIPTION OF PLANS - Continued

B) Pension Benefits

PERS

Benefits are set by statute. The System has no provisions or policies with respect to automatic and ad hoc post-retirement benefit increases. Members of the main system are entitled to unreduced monthly pension benefits beginning when the sum of age and years of credited service equal or exceed 85 (Rule of 85), or at normal retirement age (65). The annual pension benefit is equal to 2.00% of their average monthly salary, using the highest 36 months out of the last 120 months of service, for each year of service. The Plan permits early retirement at ages 55-64 with three or more years of service.

Supreme and District Court Judges are entitled to unreduced monthly pension benefits beginning at normal retirement age of (65) or the Rule of 85. The monthly pension benefit is equal to a percentage of average monthly salary using the highest 36 months out of the last 120 months of service. The percentage is equal to 3.50% of average monthly salary multiplied by the first ten years of service, plus 2.80% of the average monthly salary times the second ten years of service, plus 1.25% of average monthly salary times years of service in excess of twenty years. The judicial retirement formula is only applied to eligible judicial service. Non-judicial service benefits are calculated using the 2.00% multiplier. The Plan permits early retirement at ages 55-64 with five or more years of service.

Members of the National Guard System are entitled to unreduced monthly pension benefits at normal retirement age (55). Members of the Law Enforcement System are entitled to unreduced monthly pension benefits at normal retirement age (55) or the Rule of 85. The monthly pension benefit for the National Guard/Law Enforcement is equal to 2.00% of their average monthly salary, using the highest 36 months out of the last 120 months of service, for each year of service. The Plan permits early retirement at ages 50-55 with three or more years of service.

Continued

NORTH DAKOTA PUBLIC EMPLOYEES RETIREMENT SYSTEM
Bismarck, North Dakota

Notes to Financial Statements - Continued

June 30, 2008 and 2007

NOTE 8 DESCRIPTION OF PLANS - Continued

B) Pension Benefits – Continued

Members may elect to receive the pension benefits in the form of a single life, joint and survivor, level social security, term-certain annuity, or partial lump sum with ongoing annuity. Members may elect to receive the value of their accumulated contributions, plus interest, as a lump sum distribution upon retirement or termination, or they may elect to receive their benefits in the form of an annuity. For each member electing an annuity, total payment will not be less than the members' accumulated contributions plus interest.

HPRS

Benefits are set by statute. The System has no provisions or policies with respect to automatic and ad hoc post-retirement benefit increases. Members are entitled to unreduced pension benefits upon attainment of age 55 and ten years of eligible employment or when the sum of age and years of credited service equals or exceeds 80. The annual pension benefit is equal to a percentage of average monthly salary using the highest 36 months out of the last 120 months of service. The percentage is equal to the sum of the first 25 years of service multiplied by 3.60% and 1.75% multiplied by years of service in excess of 25, if any. The Plan permits early retirement at ages 50-54, with ten or more years of service.

Members may elect to receive the pension benefits in the form of a single life, joint and survivor, term-certain annuity, or partial lump sum with ongoing annuity. Members may elect to receive the value of their accumulated contributions, plus interest, as a lump sum distribution upon retirement or termination, or they may elect to receive their benefits in the form of an annuity. For each member electing an annuity, total payment will not be less than the members' accumulated contributions plus interest.

Defined Contribution Plan

Members are entitled to their vested account balance. A participating member is immediately 100% vested in the member's contributions. A participating member vests in the employer contributions made on the member's behalf as follows:

Upon completion of two years of service	50%
Upon completion of three years of service	75%
Upon completion of four years of service	100%

Members may elect to receive their account balance in a lump sum, lump sum direct rollover or periodic distribution.

Continued

NORTH DAKOTA PUBLIC EMPLOYEES RETIREMENT SYSTEM
Bismarck, North Dakota

Notes to Financial Statements - Continued

June 30, 2008 and 2007

NOTE 8 DESCRIPTION OF PLANS - Continued

B) Pension Benefits – Continued

Retirement Plan for Employees of Job Service North Dakota

Benefits are established through the plan document, as amended. The System provides a post-retirement cost-of living adjustment each year based on the Consumer Price Index. Employees are entitled to annual pension benefits beginning at normal retirement age (65). Employees may elect optional retirement eligibility at age 62 with 5 years of credited service, at age 60 with 20 years of credited service, or at age 55 with 30 years of credited service. Pension benefits are calculated based on the final average earnings (basic monthly earnings averaged over the highest three consecutive years of basic earnings) of the employee multiplied by the sum of:

- 1.5% times years of credited service up to 5 plus
- 1.75% times years of credited service between 6 and 10 plus
- 2.0% times years of credited service in excess of 10

OASIS

Benefits are set by statute. On a biennial basis, legislation has been introduced to the North Dakota legislature to increase the primary benefit amount in (c) below. Eligible individuals are entitled to primary insurance benefits at normal retirement age of 65. The primary insurance benefit is the sum of a) 50% of the amount of the average monthly wage if the average monthly wage does not exceed seventy-five dollars or \$37.50 or 15% of the amount by which the average monthly benefit exceeds seventy five dollars and does not exceed two hundred and fifty dollars; b) 1% of the amount computed under (a), multiplied by the number of years in which two hundred or more of wages were paid to the individual; and c) \$826.64.

NORTH DAKOTA PUBLIC EMPLOYEES RETIREMENT SYSTEM
Bismarck, North Dakota

Notes to Financial Statements - Continued

June 30, 2008 and 2007

NOTE 8 DESCRIPTION OF PLANS - Continued

C) Death and Disability Benefits

PERS

Death and disability benefits are set by statute. If an active member dies with less than three years of service for the Main System and National Guard, or less than five years of service for Supreme and District Court Judges, a death benefit equal to the value of the member's accumulated contributions, plus interest, is paid to the member's beneficiary. If the member has earned more than three years of credited service for the Main System and National Guard, the surviving spouse will be entitled to a single payment refund, life-time monthly payments in an amount equal to 50% of the member's accrued normal retirement benefit, or 60 monthly payments equal to the member's accrued normal retirement benefit calculated as if the member were age 65 the day before death occurred or monthly payments in an amount equal to the member's accrued 100% Joint and Survivor retirement benefit if the member had reached normal retirement age prior to date of death. If the surviving spouse dies before the member's accumulated pension benefits are paid, the balance will be payable to the surviving spouse's designated beneficiary.

For Judges who have earned more than five years of credited service, the death benefit is the greater of (i) lump sum payment of accumulated contributions, and (ii) 100% of the members' accrued benefit (not reduced on account of age), payable for the spouse's lifetime.

Eligible members who become totally disabled after a minimum of 180 days of service, receive monthly disability benefits equal to 25% of their final average salary with a minimum benefit of \$100. To qualify under this section, the member has to become disabled during the period of eligible employment and apply for benefits within one year of termination. The definition for disabled is set by the System in the North Dakota Administrative Code.

For Judges only, the disability benefit formula is 70% of final average salary minus Social Security and Workers Compensation benefits.

HPRS

Death and disability benefits are set by statute. If an active member dies with less than ten years of credited service, a death benefit equal to the value of the member's accumulated contributions, plus interest is paid to the member's beneficiary. If the member has earned more than ten years of credited service, the surviving spouse, if any, will be entitled to a single payment refund, life-time monthly payments in an amount equal to 50% of the member's accrued normal retirement benefit or 60 monthly payments equal to the member's accrued normal retirement benefit calculated as if the member were age 55 the day before death occurred. If the surviving spouse dies before the member's accumulated pension benefits are paid, the balance will be payable to any designated beneficiary.

Continued

NORTH DAKOTA PUBLIC EMPLOYEES RETIREMENT SYSTEM
Bismarck, North Dakota

Notes to Financial Statements - Continued

June 30, 2008 and 2007

NOTE 8 DESCRIPTION OF PLANS - Continued

C) Death and Disability Benefits-Continued

Eligible members who become totally disabled after a minimum of 180 days of service, receive monthly disability benefits that are up to 70% of their final average salary, reduced by worker's compensation, with a minimum benefit of \$100. To qualify under this section the member must meet the criteria established by the System for being totally disabled and apply for benefits within one year of termination.

Defined Contribution Plan

Upon the death of a participating member or former participating member, the vested account balance of that deceased participant is available to the participant's designated beneficiary(ies).

A member who becomes totally and permanently disabled while employed by the State is eligible to receive a distribution of the vested account balance. To qualify under this section, the member must meet the criteria established by the System for being totally disabled.

Retirement Plan for Employees of Job Service North Dakota

The plan provides retirement, disability and death benefits. If the death of a participant occurs prior to his/her annuity starting date, the surviving spouse who has been married at least two years prior to the participant's death or, if married less than two years is a parent of a child of this marriage, then the spouse shall receive monthly benefits. The amount is the greater of the benefit had the participant retired on the day before he/she died and elected the Contingent Annuitant Option with 55% of his/her retirement benefit continued to his/her spouse of 55% of the smaller of 40% of the deceased participant's average monthly earnings or the deceased participant's normal retirement benefit obtained by increasing their credited service by the period of time between their date of death and the date they would have attained age 60. Upon remarriage of the surviving spouse before age 60, the death benefits will cease.

If a participant becomes totally disabled, he/she will be eligible for a monthly disability benefit that shall be equal to the greater of 40% of the participant's average annual earnings or the accrued benefit determined as their date of disability.

OASIS

Eligible surviving spouses are entitled to three-fourths of the primary insurance benefit of the insured individual.

NORTH DAKOTA PUBLIC EMPLOYEES RETIREMENT SYSTEM
Bismarck, North Dakota

Notes to Financial Statements - Continued

June 30, 2008 and 2007

NOTE 8 DESCRIPTION OF PLANS - Continued

D) Refunds of Member Contributions

Upon termination, if a member of PERS or HPRS is not vested (is not 65 or does not have three years of service for the Main System and National Guard, or five years of service for the Supreme and District Court Judges, credited for the PERS, or is not 60 or does not have ten years of service credited for the HPRS), they will receive the accumulated member contributions plus interest, or may elect to receive this amount at a later date. If a member has vested, they have the option of applying for a refund or can remain as a terminated vested participant. If a member terminated and withdrew their accumulated member contribution and is subsequently reemployed, they have the option of repurchasing their previous service.

E) Contributions

Contribution rates for PERS and HPRS are set by state statute, actuarially determined based on the entry age normal actuarial cost method. This method produces an employer contribution rate consisting of (1) an amount for normal cost, (2) an amount for amortization of the unfunded accrued liability over an open period of 20 years, and (3) the amount necessary to provide for operating expenses. Contribution rates for the Defined Contribution Plan are set by state statute and are a percentage of salaries and wages. Contribution rates for the Job Service Retirement Plan are established in the plan document, as amended, actuarially determined using the frozen initial liability actuarial cost method. Contributions to OASIS are set by statute. Contributions are required only to the extent the trust fund does not have sufficient funds to meet current benefit payments. A tax will be assessed on participating state and local government employers when the trust fund does not have sufficient funds to meet current benefit obligations. No contributions have been collected since 1989.

PERS

Member contributions are established at 4% of regular compensation with the exception of Supreme and District Court judge contributions which are established at 5% of total compensation. During the 1983-1985 biennium the State and some of the participating political subdivisions implemented the employer pickup provision of the IRS code whereby a portion or all of the required member contributions are made by the employer. The State is paying the full member contribution with the exception of the Supreme and District court judges for which the State is paying 4 of the 5% contribution. Some of the political subdivisions are paying all or part of the member contributions.

Continued

NORTH DAKOTA PUBLIC EMPLOYEES RETIREMENT SYSTEM
Bismarck, North Dakota

Notes to Financial Statements - Continued

June 30, 2008 and 2007

NOTE 8 DESCRIPTION OF PLANS - Continued

E) Contributions-Continued

Employer contributions of 4.12% of covered compensation are set by statute. The employer contribution rate for the Supreme and District Court Judges is also set by statute at 14.52% and the contribution rate for the National Guard Security Officers and Firefighters is set by the Board as follows:

National Guard is at 6.50 percent
Law Enforcement with previous service is 8.31 percent
Law Enforcement without previous service is 6.43 percent

The entry age normal cost method determines the amount of contributions necessary to fund: (a) the current service cost, which represents the estimated amount necessary to pay for the benefits earned by members during the current service year and, (b) the prior service cost, which represents the amount necessary to pay for benefits earned prior to the effective date of the plan.

Except for Supreme and District Court Judges, the member's account balance includes the vested employer contributions equal to the member's contributions to an eligible deferred compensation plan.

The minimum member contribution is \$25 and the maximum may not exceed the following:

1 to 12 months of service - Greater of one percent of monthly salary or \$25
13 to 24 months of service - Greater of two percent of monthly salary or \$25
25 to 36 months of service - Greater of three percent of monthly salary or \$25
Longer than 36 months of service - Greater of four percent of monthly salary or \$25

An open period of 20 years to fund accrued liabilities for the Public Employees Retirement System and the Supreme and District Court Judges has been adopted for the July 1, 1996 valuation and adopted for the National Guard Security Officers and Firefighters for the July 1, 1998 valuation. Currently, the present rate of contributions is not sufficient to meet the actuarially determined requirement for 2008-2009.

HPRS

Employees' contributions are established at 10.3% of total compensation of which the state is paying 4%. Employer contributions of 16.7% of covered compensation are set by statute. The entry age normal cost method determines the amount of contributions necessary to fund; (a) the current service cost, which represents the estimated amount necessary to pay for benefits earned by employees during the current service year and, (b) the prior service cost, which represents the amount necessary to pay for benefits earned prior to the effective date of the plan.

Continued

NORTH DAKOTA PUBLIC EMPLOYEES RETIREMENT SYSTEM
Bismarck, North Dakota

Notes to Financial Statements - Continued

June 30, 2008 and 2007

NOTE 8 DESCRIPTION OF PLANS - Continued

E) Contributions-Continued

An open period of 20 years to fund accrued liabilities for the Highway Patrolmen's Retirement System has been adopted for the July 1, 1996 valuation. Currently, the present rate of contributions is sufficient to meet the actuarially determined requirement for 2008-2009.

The following schedule represents the annual pension costs and net pension obligations:

Annual required contributions	\$ 905,591
Interest on net pension obligations	(45,257)
Adjustment to annual required contributions	39,481
Annual pension costs	<u>899,815</u>
Contributions made	<u>1,058,825</u>
Increase in net pension obligations	(159,010)
Net pension obligations, beginning of year	(565,712)
(Assets in excess of) net pension obligations, end of year	<u><u>\$ (724,722)</u></u>

Defined Contribution Plan

Member contributions are established at 4% and employer contributions are established at 4.12% of regular compensation.

Retirement Plan for Employees of Job Service North Dakota

Employees' contributions are established at 7.0% of total compensation of which the state is paying 4%. The funding policy of the plan provides for employer contributions at actuarially determined rates that, expressed as percentages of annual covered payroll, are designed to accumulate sufficient assets to pay benefits when due. Effective July 1, 1999, the "scheduled contribution" will be zero as long as the plan's actuarial value of assets exceeds the actuarial present value of projected benefits.

Continued

NORTH DAKOTA PUBLIC EMPLOYEES RETIREMENT SYSTEM
Bismarck, North Dakota

Notes to Financial Statements - Continued

June 30, 2008 and 2007

NOTE 8 DESCRIPTION OF PLANS - Continued

E) Contributions-Continued

The following schedule represents the annual pension costs and net pension obligation for the year ended June 30:

Annual required contributions	\$ -
Interest on net pension obligations	(124,112)
Adjustment to annual required contributions	130,341
Annual pension costs	<u>6,229</u>
Contributions made	<u>-</u>
Decrease in net pension obligations	6,229
Net pension obligations, beginning of year	<u>(1,654,832)</u>
(Assets in excess of) net pension obligations, end of year	<u><u>\$ (1,648,603)</u></u>

F) Retiree Health Insurance Credit Fund

The Retiree Health Insurance Credit Fund, a cost-sharing multiple-employer plan, is administered by the System to provide members receiving retirement benefits from the PERS, the HPRS, and judges retired under Chapter 27-17 of the North Dakota Century Code a credit toward their monthly health insurance premium under the state health plan based upon the member's years of credited service. The Retiree Health Insurance Credit Fund is advance-funded on an actuarially determined basis.

Employee membership data is as follows:

	2008	2007
Retired participants, receiving benefits	<u>3,935</u>	<u>3,922</u>
Eligible terminated participants not receiving benefits	-	-
Active participants, not receiving benefits	<u>19,659</u>	<u>18,929</u>
	<u><u>23,594</u></u>	<u><u>22,851</u></u>

The Retiree Health Insurance Credit Fund has 19,659 active participants at June 30, 2008. The employers' actuarially required contribution was \$5,708,457 and the actual employer contributions for the period ended June 30, 2008 were \$6,174,940.

Continued

NORTH DAKOTA PUBLIC EMPLOYEES RETIREMENT SYSTEM
Bismarck, North Dakota

Notes to Financial Statements - Continued

June 30, 2008 and 2007

NOTE 8 DESCRIPTION OF PLANS - Continued

F) Retiree Health Insurance Credit Fund

The following are the changes in actuarial assumptions, asset method and plan experience and the effect on the employer's contribution rates expressed as a percent of covered payroll, and the dollar effect on the actuarial accrued liability.

	%	Dollar
Net effect of change in actuarial assumption	-	\$ -
Benefit improvements	-	-
Changes in plan experience during the year	(0.07%)	(462,613)
	<u>(0.07%)</u>	<u>\$ (462,613)</u>

The employer contribution for the PERS and the HPRS and the Defined Contribution Plan is set by statute on an actuarially determined basis at 1% of covered compensation. The employer contribution for non-teaching employees of the Office of the Superintendent of Public Instructions is 3.1% of covered compensation beginning in the month following the transfer under Chapter 54-52-02.13 of the North Dakota Century Code and continuing thereafter for a period of eight years. The employer contribution for employees of the state board of career and technical education is 2.85% of covered compensation beginning in the month following the transfer under Chapter 54-52-02.14 of the North Dakota Century code and continuing thereafter for a period of eight years. Employees participating in the retirement plan as part-time/temporary members are required to contribute 1% of their covered compensation to the Retiree Health Insurance Credit Fund. Employees purchasing previous service credit are also required to make an employee contribution to the Fund. The benefit amount applied each year is shown as "*prefunded credit applied*" on the Statement of Changes in Plan Net Assets for the pension trust funds.

Retiree health insurance credit benefits and death and disability benefits are set by statute. There are no provisions or policies with respect to automatic and ad hoc post-retirement benefit increases. Employees who are receiving monthly retirement benefits from the PERS, the HPRS, the Defined Contribution Plan, the Chapter 27-17 judges or an employee receiving disability benefits, or the spouse of a deceased annuitant receiving a surviving spouse benefit or if the member selected a joint and survivor option are eligible to receive a credit toward their monthly health insurance premium under the state health plan. The benefits are equal to \$4.50 for each of the employee's, or deceased employee's years of credited service not to exceed the premium in effect for selected coverage. The retiree health insurance credit is also available for early retirement with reduced benefits.

Another component of the Retiree Health Insurance Credit Fund provides health care coverage to eligible retirees who are not eligible for Medicare. The premiums for this coverage are set under North Dakota Century Code Chapter 54-52.1-02 as a percent of the active member single and family plan rates and are paid by the retiree. The premiums for this coverage are not age-rated. Currently, the premiums for this group do not cover the

Continued

NORTH DAKOTA PUBLIC EMPLOYEES RETIREMENT SYSTEM
Bismarck, North Dakota

Notes to Financial Statements - Continued

June 30, 2008 and 2007

NOTE 8 DESCRIPTION OF PLANS - Continued

F) Retiree Health Insurance Credit Fund-Continued

costs of the coverage; therefore, the costs of this group are being subsidized through the active group rates. This subsidy is not funded in advance and there is no guarantee that the subsidy for the 2007-09 biennium will continue in the future. In the event the legislature does not fund the subsidy beyond the current biennium, the coverage would discontinue and the unfunded actuarial accrued liability displayed in the table below for the retiree health implicit subsidy would be reduced to zero.

A member must be receiving a retirement allowance from NDPERS to be eligible for the retiree health care coverage. In addition, a member receiving a retirement allowance from NDTFFR or TIAA-CREF is also eligible for the retiree health care coverage.

The premiums for this plan are reported as employee contributions on the Statement of Changes in Plan Assets as they are fully paid by the retirees. The full amount of the premiums collected are expended each year and are reported as health premiums paid on the Statement of Changes in Plan Assets.

G) Funded Status and Funding Progress

The funded status of the plans as of the most recent actuarial valuation date is as follows (in millions):

Plan	Actuarial Valuation Date June 30	Actuarial Value of Plan Assets	Actuarial Accrued Liability (AAL)	Unfunded Actuarial Accrued Liability (UAAL)	Funded Ratio	Annual Covered Payroll	UAAL as a Percentage of Annual Covered Payroll
Public Employees	2008	\$ 1,609.8	\$ 1,737.6	\$ 127.8	92.6%	\$ 640.7	19.9%
Highway Patrol	2008	\$ 50.8	\$ 54.6	\$ 3.8	93.0%	\$ 6.5	58.5%
Job Service	2008	\$ 77.0	\$ 70.8	\$ (6.2)	108.8%	\$ 1.8	0.0%
Retiree Health Credit	2008	\$ 42.5	\$ 87.6	\$ 45.1	48.5%	\$ 660.9	6.8%
Retiree Health Implicit Subsidy	2007	\$ -	\$ 30.7	\$ 30.7	0.0%	\$ -	0.0%

The schedules of funding progress, presented as required supplementary information following the notes to the financial statements, present multiyear funding trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liability for benefits, as obtained from the System's independent actuary's annual valuation reports.

Continued

NORTH DAKOTA PUBLIC EMPLOYEES RETIREMENT SYSTEM
Bismarck, North Dakota

Notes to Financial Statements - Continued

June 30, 2008 and 2007

NOTE 8 DESCRIPTION OF PLANS - Continued

G) Funded Status and Funding Progress-Continued

Expressing the actuarial value of assets as a percentage of the actuarial accrued liabilities provides an indication whether the plan is becoming financially stronger or weaker. Generally, the greater the percentage the stronger the retirement plan. Trends in unfunded actuarial accrued liabilities and annual covered payroll are both affected by inflation. Expressing the unfunded actuarial accrued liabilities as a percentage of annual covered payroll aids analysis of progress made in accumulating sufficient assets to pay benefits when due. Generally, the smaller this percentage the stronger the retirement plan.

The accompanying schedule of employer contributions, presented as required supplementary information following the notes to the financial statements, presents trend information about the amounts contributed to the plans by employers in comparison to the Annual Required Contribution (ARC). The ARC is actuarially determined in accordance with the parameters of GASB Statement 50. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost for each year and amortize any unfunded actuarial liabilities over a period not to exceed thirty years.

H) Actuarial Assumptions and Methods

PERS and HPRS

An entry age normal actuarial cost method of valuation is used in determining benefit liabilities and normal cost. Differences between assumed and actual experience (actuarial gains and losses) become part of unfunded actuarial accrued liabilities. Unfunded actuarial accrued liabilities for pension benefits are amortized over an open period of 20 years for the Public Employees Retirement System, the Supreme and District Court Judges, and the Highway Patrolmen's Retirement System which was adopted for the July 1, 1996 valuation. For the July 1, 1998 valuation the National Guard Security Officers and Firefighters changed the amortization period for the unfunded actuarial accrued liabilities for pension benefits from a closed period to an open period of 20 years. For both plans, this will produce payments which are level percents of payroll contributions based on an open amortization period.

Retirement Plan for Employees of Job Service North Dakota

A frozen initial liability actuarial cost method of valuation is used in determining benefit liabilities and normal cost. The normal contribution under this method is the normal cost plus the payment required to amortize the unfunded actuarial liability over a selected period of years. The normal cost is determined by calculating the total value of all future benefits, subtracting the unfunded actuarial liability, and dividing that amount into payments that are a level percent of pay over the future working lifetime of all participants.

To calculate pension plan contribution requirements, assumptions are made about all of the

Continued

NORTH DAKOTA PUBLIC EMPLOYEES RETIREMENT SYSTEM
Bismarck, North Dakota

Notes to Financial Statements - Continued

June 30, 2008 and 2007

NOTE 8 DESCRIPTION OF PLANS - Continued

H) Actuarial Assumptions and Methods-Continued

future events that could affect the amount and timing of benefits to be paid and assets to be accumulated. Under the Frozen Initial Liability Actuarial Cost method used, the normal cost will remain level as a percentage of covered payroll if the assumptions closely approximate experience. Each year actual experience is measured against the assumptions, and to the extent that there were differences in that year, the contribution requirement is adjusted. If the assumptions are changed, contribution requirements are adjusted to take into account a change in experience in all future years.

Under the Frozen Initial Liability Actuarial Cost Method, the net gain or loss is translated into a decrease or increase in the normal cost percentage, since the unfunded actuarial accrued liability has been frozen. The unfunded employer frozen initial liability was frozen at October 1, 1983. Effective July 1, 1999, the "scheduled contribution" will be zero as long as the plan's actuarial value of assets exceeds the actuarial present value of projected benefits.

Retiree Health Insurance Credit

Under the Projected Unit Credit Actuarial Cost Method, benefits are projected to each assumed occurrence of decrement (death, disability, retirement) using service as of the valuation date. The normal cost is equal to the actuarial present value of the benefits allocated to the current year. The actuarial accrued liability for active members is equal to the actuarial present value of the benefits allocated to all prior years. The actuarial accrued liability for members currently receiving benefits and for participants entitled to deferred benefits is the actuarial present value of the benefits expected to be paid. The unfunded actuarial accrued liability is equal to the actuarial accrued liability minus the actuarial value of assets. This amount is amortized as a level percentage of payroll over a fixed period of 40 years, of which 23 years remain. For the implicit subsidy unfunded plan, this amount is amortized over a fixed period of 30 years.

PERS and HPRS

For actuarial purposes, assets are valued utilizing a method which recognizes book value plus or minus realized and unrealized investment gains and losses amortized over a five-year period.

Significant actuarial assumptions employed by the actuary for funding purposes as of June 30, 2008, the date of the latest actuarial study include:

- ☐ **Investment Return** - A rate of return on the investment of present and future assets of 8 %, net of investment expenses.
- ☐ **Inflation** - The assumed inflation rate is 3.50% per annum.
- ☐ **Salary Scale** - Projected salary increases based upon inflation of 4.5 % together with wage increases attributable to seniority, merit and "standard of living" increases.

NORTH DAKOTA PUBLIC EMPLOYEES RETIREMENT SYSTEM
Bismarck, North Dakota

Notes to Financial Statements - Continued

June 30, 2008 and 2007

NOTE 8 DESCRIPTION OF PLANS - Continued

H) Actuarial Assumptions and Methods-Continued

- ☐ **Mortality Rates** - Pre- and post-mortality life expectancies of participants based upon 1983 Group Annuity Mortality Tables and the Pension Benefit Guaranty Corporation's Disabled Life Mortality Tables, with a one year set back for the mortality assumption for males.
- ☐ **Withdrawal** - Rates of withdrawal from active service before retirement for reasons other than death, rates of disability and expected retirement ages developed on the basis of an investigation of actual plan experience.
- ☐ **Expenses** - Administrative expense of \$720,000 a year for the Public Employees Retirement System and \$16,000 a year for Highway Patrolmen's Retirement System.
- ☐ **Post-retirement benefit increase** - There are no post-retirement benefit increase assumptions.

Retirement Plan for Employees of Job Service North Dakota

For actuarial purposes, assets are valued utilizing a method which recognized book value plus or minus realized and unrealized investment gains and losses amortized over a five-year period. Significant actuarial assumptions employed by the actuary for funding purposes as of June 30, 2008, the date of the latest actuarial study include:

Rate of return: 7.5% per year compounded annually, net of investment fees and administrative expenses

Salary scale: 5% per year

Mortality tables:

Healthy: 1994 Group Annuity Mortality Table

Disabled: 1983 Railroad Retirement Board Disabled Life Mortality Table

Retirement age: 75% of active participants are assumed to retire when eligible for optional retirement, and the remaining participants retire at normal retirement.

100% of inactive vested participants are assumed to retire at optional retirement age.

Post-retirement Cost

Of Living Adjustment

(COLA): 5% per year

NORTH DAKOTA PUBLIC EMPLOYEES RETIREMENT SYSTEM
Bismarck, North Dakota

Notes to Financial Statements - Continued

June 30, 2008 and 2007

NOTE 8 DESCRIPTION OF PLANS - Continued

H) Actuarial Assumptions and Methods-Continued

Retiree Health Insurance Credit

Actuarial valuations for other postretirement employee benefit plans involve estimates of the value of reported amounts and assumptions about the probability of events far into the future, and actuarially determined amounts are subject to continual revision as results are compared to past expectations and new estimates are made about the future. Actuarial calculations of other postretirement employee benefit plans reflect a long-term perspective.

The actuarial methods and assumptions for the other postretirement employee benefit plan include techniques that are designed to reduce short-term volatility in the actuarial accrued liabilities and the actuarial value of assets.

Advance Funded Plan

For actuarial purposes, assets are valued utilizing a method which recognizes book value plus or minus realized and unrealized investment gains and losses amortized over a five-year period.

Significant actuarial assumptions employed by the actuary for funding purposes as of June 30, 2008, the date of the latest actuarial study include:

Mortality Rates: 1983 Group Annuity Mortality Table for Health Lives and the Pension Benefit Guaranty Corporation Disabled Life Mortality Table for Participants Receiving Social Security Benefits for Disabled Lives

Withdrawal Rates: Rates of withdrawal from active service before retirement for reasons other than death, rates of disability and expected retirement ages developed on the basis of an investigation of actual plan experience.

Investment Return: 8.00% per annum, net of investment expenses.

Inflation: 3.50% per annum.

Expenses: Administrative expenses of \$65,000 a year.

NORTH DAKOTA PUBLIC EMPLOYEES RETIREMENT SYSTEM
Bismarck, North Dakota

Notes to Financial Statements - Continued

June 30, 2008 and 2007

NOTE 8 DESCRIPTION OF PLANS - Continued

H) Actuarial Assumptions and Methods-Continued

Implicit Subsidy Unfunded Plan

Significant actuarial assumptions employed by the actuary for funding purposes as of June 30, 2007, the date of the latest actuarial study include:

Mortality Rates: 1983 Group Annuity Mortality Table, applied on a gender-specific basis.

Expected Monthly Costs: Approximate Monthly Implicit Subsidy for a Single plan of \$47 and \$64 for a Family plan

Health Care Cost Trend: Select - 11.0%; Ultimate 6.0%. Select trends are reduced 0.5% each year until reaching the ultimate trend.

Retirement Age: Retirement probabilities have been developed from the assumptions for the NDPERS plans.

Termination: Probabilities of withdrawal for reasons other than death and retirement have been developed from the assumptions for the NDPERS pension plans.

NORTH DAKOTA PUBLIC EMPLOYEES RETIREMENT SYSTEM
Bismarck, North Dakota

Notes to Financial Statements - Continued

June 30, 2008 and 2007

NOTE 9 DEFERRED COMPENSATION PLAN FOR PUBLIC EMPLOYEES

The System was given the authority by Chapter 54-52.2 to administer an employee deferred compensation plan in accordance with Internal Revenue Code Section 457. The plan allows employees of the State of North Dakota or any of its political subdivisions, institutions, departments, or agencies to participate, providing that the employee has signed a participant agreement which permits them to defer a portion of their salary until future years. The deferred compensation is not available to employees until termination, retirement, death, or unforeseeable emergency.

All compensation deferred under the plans, all property and rights purchased with those amounts, and all income attributable to those amounts, property or rights are held in trust for the exclusive use of the employee or their beneficiary.

The related assets are reported at market value as investments as follows:

	2008		2007	
Plan participation by				
State of North Dakota	\$ 20,712,499	87%	\$ 20,519,284	86%
Other jurisdictions	3,114,536	13%	3,328,196	14%
Total value	<u>\$ 23,827,035</u>	<u>100%</u>	<u>\$ 23,847,480</u>	<u>100%</u>

NOTE 10 FEDERAL INCOME TAX STATUS

The System is exempt from the payment of any federal income taxes by virtue of being an agency of the state of North Dakota.

NORTH DAKOTA PUBLIC EMPLOYEES RETIREMENT SYSTEM
Bismarck, North Dakota

Notes to Financial Statements - Continued

June 30, 2008 and 2007

NOTE 11 UNIFORM GROUP INSURANCE PROGRAM SURPLUS

The Uniform Group Insurance Program, a proprietary fund, contracts with Blue Cross Blue Shield of North Dakota (BCBS) to provide health care insurance to the employees of the State of North Dakota, or any of its political subdivisions, institutions, departments or agencies. The contract provides for an accounting of premiums paid and claims incurred during the biennium. In accordance with the contract for the 2005-2007 biennium, the System deposited a total of \$14,227,761 with BCBS. These surplus funds are to be used to pay any claims in excess of the premiums collected. At the end of the contract period, the System receives the remaining surplus funds plus interest, if any. The System has entered into a similar contract with BCBS for the 2007-2009 biennium. The accumulated surplus and other invested funds in the amount of \$2,055,417 are shown as cash on the System's balance sheet. These funds are being held by BCBS.

The contract for life insurance for the 2007-2009 biennium is with Prudential and does not have a gain sharing arrangement.

NOTE 12 RISK MANAGEMENT

The System is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The following are funds/pools established by the state for risk management issues:

The 1995 Legislative Session established the Risk Management Fund (RMF), an internal service fund, to provide a self-insurance vehicle for funding the liability exposures of state agencies resulting from the elimination of the state's sovereign immunity. The RMF manages the tort liability of the state, its agencies' employees and the University System. All state agencies participate in the RMF and their fund contribution was determined using a projected cost allocation approach. The statutory liability of the State is limited to a total of \$250,000 per person and \$1,000,000 per occurrence.

The System also participates in the North Dakota Fire and Tornado Fund and the State Bonding Fund. The agency pays an annual premium to the Fire and Tornado Fund to cover property damage to building and personal property. Replacement cost coverage is provided by estimating replacement cost in consultation with the Fire and Tornado Fund. The Fire and Tornado Fund is reinsured by a third party insurance carrier for losses in excess of one million dollars per occurrence during a 120-month period. The State Bonding Fund currently provides the agency with blanket fidelity bond coverage in the amount of \$2,000,000 for its employees. The State Bonding Fund does not currently charge any premium for this coverage.

NORTH DAKOTA PUBLIC EMPLOYEES RETIREMENT SYSTEM
Bismarck, North Dakota

Notes to Financial Statements - Continued

June 30, 2008 and 2007

NOTE 12 RISK MANAGEMENT - Continued

The System participates in the North Dakota Workforce Safety, an Enterprise Fund of the State of North Dakota. Workforce Safety is a state insurance fund and a "no fault" insurance system covering the State's employers and employees financed by premiums assessed to employers. The premiums are available for the payment of claims to employees injured in the course of employment.

There have been no significant reductions in insurance coverage from the prior year and settled claims resulting from these risks have not exceeded insurance coverage in any of the past three fiscal years.

NOTE 13 RELATED PARTIES

As stated in Note 1 of these financial statements, the System is a state agency of the state of North Dakota, as such, the other state agencies of the state and political subdivisions are related parties.

NOTE 14 COMMITMENTS

The System has entered into agreements with Sagitec Solutions, LLC and L.R. Wechsler, Ltd for the development of its new integrated benefits administration system. The contract with Sagitec is \$7.7 million and the contract with L.R. Wechsler is \$1 million, and the total appropriation for this project is approximately \$9.6 million, which is anticipated to be fully completed by September 2010. As of June 30, 2008 the System has paid \$3.2 million towards these contracts. The remaining \$5.5 million will be paid as the project is completed.

NOTE 15 NEW PRONOUNCEMENTS

GASB Statement No. 50, "*Pension Disclosures-an amendment of GASB Statements No. 25 and No. 27*", was issued in May 2007, and implemented for the fiscal year beginning July 1, 2007. This statement modifies the financial reporting requirements for pensions and enhances information disclosed in the notes to the financial statements or presented as required supplementary information.

NOTE 16 SUBSEQUENT EVENT

Subsequent to year end, the credit and liquidity crisis in the United States and throughout the global financial system has resulted in substantial volatility in financial markets and the banking system. These and other economic events have had a significant adverse impact on investment portfolios. As a result, SIB managed (which includes System assets) investments have likely incurred a significant decline in fair value since June 30, 2008.

NORTH DAKOTA PUBLIC EMPLOYEES RETIREMENT SYSTEM
Bismarck, North Dakota

Required Supplementary Information
Schedule of Employer Contributions

For the six years ended June 30, 2008 and 2007

Public Employees Retirement System

Year Ended June 30	Required Contribution	Percentage Contributed
2003	\$20,644,235	93%
2004	26,704,376	74%
2005	31,844,577	65%
2006	31,906,102	69%
2007	38,184,510	61%
2008	35,875,117	70%

Highway Patrolmen's Retirement System

Year Ended June 30	Annual Required Contribution	Percentage Contributed	Net Pension Obligation
2003	\$ 748,658	111%	\$ (899,304)
2004	940,629	90%	(812,097)
2005	1,046,646	83%	(641,545)
2006	904,817	97%	(674,484)
2007	1,076,146	89%	(565,712)
2008	905,591	117%	(724,722)

For the four years ended June 30, 2008

Retiree Health Insurance Credit
Advance Funded Plan

Year Ended June 30	Annual Required Contribution	Percentage Contributed
2005	\$ 5,139,793	99.0%
2006	5,396,153	100.0%
2007	5,687,050	100.0%
2008	5,708,457	100.0%

For the one year ended June 30, 2008

Retiree Health Insurance Credit Implicit Subsidy Unfunded Plan

Year Ended June 30	Annual Required Contribution	Percentage Contributed
2008	\$ 4,020,000	0%

NORTH DAKOTA PUBLIC EMPLOYEES RETIREMENT SYSTEM
Bismarck, North Dakota

Required Supplementary Information
Schedule of Funding Progress

For the six years ended June 30, 2008 and 2007

Public Employees Retirement System
(Expressed in Millions)

Actuarial Valuation Date June 30	Actuarial Accrued Liabilities (AAL) - Entry Age	Actuarial Value of Assets	Unfunded AAL (UAAL)	Ratio of Assets to AAL	Covered Payroll	UAAL as a Percentage of Covered Payroll
2003	\$ 1,188.8	\$ 1,166.5	\$ 22.3	98.10%	\$ 479.5	4.7%
2004	1,272.9	1,196.5	76.4	94.0	501.1	15.3
2005	1,361.2	1,236.1	125.1	90.8	521.1	24.0
2006	1,480.5	1,314.5	166.0	86.8	547.0	30.3
2007	1,610.2	1,503.1	107.1	93.4	582.3	18.4
2008	1,737.6	1,609.8	127.8	92.6	640.7	19.9

Highway Patrolmen's Retirement System
(Expressed in Millions)

Actuarial Valuation Date June 30	Actuarial Accrued Liabilities (AAL) - Entry Age	Actuarial Value of Assets	Unfunded AAL (UAAL)	Ratio of Assets to AAL	Covered Payroll	UAAL as a Percentage of Covered Payroll
2003	\$ 42.4	\$ 39.6	\$ 2.8	93.4%	\$ 5.4	51.9%
2004	44.5	40.0	4.5	89.9	5.4	83.3
2005	46.3	40.7	5.6	87.9	5.3	105.7
2006	49.1	42.8	6.3	87.0	5.7	110.5
2007	51.5	48.2	3.3	93.5	6.1	54.1
2008	54.6	50.8	3.8	93.0	6.5	58.5

NORTH DAKOTA PUBLIC EMPLOYEES RETIREMENT SYSTEM
Bismarck, North Dakota

Required Supplementary Information
Schedule of Funding Progress

For the six years ended June 30, 2008 and 2007

Retirement Plan for Employees of Job Service North Dakota
(Expressed in Millions)

Actuarial Valuation Date June 30	Actuarial Accrued Liabilities (AAL) - Entry Age	Actuarial Value of Assets	Unfunded (Overfunded) AAL (UAAL)	Ratio of Assets to AAL	Covered Payroll	UAAL (Funded Excess) as a Percentage of Covered Payroll
2007	\$ 70.7	\$ 75.7	\$ (5.0)	107.1	\$ 1.8	0.0%
2008	70.8	77.0	(6.2)	108.8	1.8	0.0

Retiree Health Insurance Credit
(Expressed in Millions)

Actuarial Valuation Date June 30	Actuarial Accrued Liabilities (AAL) - Unit Credit	Actuarial Value of Assets	Unfunded AAL (UAAL)	Ratio of Assets to AAL	Covered Payroll	UAAL as a Percentage of Covered Payroll
2005	\$ 78.1	\$ 30.9	\$ 47.2	39.6%	\$ 538.6	8.8%
2006	82.6	34.0	48.6	41.2	568.0	8.6
2007	85.3	38.9	46.5	45.6	602.9	7.7
2008	87.6	42.5	45.1	48.5	660.9	6.8

Retiree Health Insurance Implicit Subsidy
(Expressed in Millions)

Actuarial Valuation Date June 30	Actuarial Accrued Liabilities (AAL) - Unit Credit	Actuarial Value of Assets	Unfunded AAL (UAAL)	Ratio of Assets to AAL	Covered Payroll	UAAL as a Percentage of Covered Payroll
2007	\$ 30.7	\$ -	\$ 30.7	0.0%	\$ -	0.0%

	Pretax Benefit Program		Deferred Compensation Program		Retirement Plan for Employees of Job Service North Dakota		Oasis Trust Fund	
	2008	2007	2008	2007	2008	2007	2008	2007
Investment expenses								
Payments to State								
Investment Board								
Investment fees	\$ -	\$ -	\$ -	\$ -	\$ 622,355	\$ 416,599	\$ -	\$ -
Administrative expenses	-	-	-	-	-	-	-	-
Payments to providers								
Investments fees	-	-	58,575	49,155	-	-	-	-
Totals	\$ -	\$ -	\$ 58,575	\$ 49,155	\$ 622,355	\$ 416,599	\$ -	\$ -
Administrative expenses								
Salaries and wages	\$ 185,972	\$ 171,913	\$ 283,781	\$ 238,504	\$ 3,975	\$ 3,674	\$ -	\$ -
Operating expenses	40,567	34,202	72,037	59,750	1,106	1,065	-	1,332
Professional fees	20,209	51,326	27,752	114,324	16,589	17,693	-	-
Data processing	6,214	4,006	12,412	5,848	542	379	-	-
Depreciation expense	-	-	-	-	-	-	-	-
Totals	\$ 252,962	\$ 261,447	\$ 395,982	\$ 418,426	\$ 22,212	\$ 22,811	\$ -	\$ 1,332

NORTH DAKOTA PUBLIC EMPLOYEES RETIREMENT SYSTEM
Bismarck, ND

Statement of Appropriations

For the year ended June 30, 2008

	<u>Approved 2007-2009 Appropriation</u>	<u>2007-2009 Appropriation Adjustments</u>	<u>Adjusted 2007-2009 Appropriation</u>	<u>Expenditures 2008</u>	<u>Unexpended Appropriation</u>
All Fund Types:					
Salaries and wages	\$ 3,776,271	\$ -	\$ 3,776,271	\$ 1,771,915	\$ 2,004,356
Operating expenses	11,247,019	-	11,247,019	3,858,565	7,388,454
Contingency	<u>250,000</u>	<u>-</u>	<u>250,000</u>	<u>-</u>	<u>250,000</u>
	<u>\$ 15,273,290</u>	<u>\$ -</u>	<u>\$ 15,273,290</u>	<u>\$ 5,630,480</u>	<u>\$ 9,642,810</u>

Reconciliation of Administrative Expenses to Appropriated Expenditures

Administrative expenses as reflected in the financial statements	2008
Pension trust funds	\$ 1,904,913
Enterprise funds	737,173
Total administrative expenses	<u>2,642,086</u>
Add:	
Software development costs reclassified to software (not in production)	3,343,637
Less:	
Professional fees	(342,286)
Depreciation expenses	(1,385)
Allocated depreciation charged as equipment rent to other programs	(831)
Changes in accrued compensated absences	(10,956)
Contribution/premium over and short	<u>215</u>
Total appropriated expenditures	<u>\$ 5,630,480</u>



CERTIFIED PUBLIC ACCOUNTANTS
AND CONSULTANTS

**INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL
OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN
AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH
GOVERNMENT AUDITING STANDARDS**

Governor John Hoeven
The Legislative Assembly

Sparb Collins, Executive Director
North Dakota Public Employees Retirement System

We have audited the financial statements of the North Dakota Public Employees Retirement System, a department of the State of North Dakota, as of and for the year ended June 30, 2008, and have issued our report thereon dated November 5, 2008. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

INTERNAL CONTROL OVER FINANCIAL REPORTING

In planning and performing our audit, we considered the North Dakota Public Employees Retirement System's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of North Dakota Public Employees Retirement System's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the North Dakota Public Employees Retirement System's internal control over financial reporting.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal control.

BRADY, MARTZ & ASSOCIATES, P.C.
207 East Broadway, P.O. Box 1297
Bismarck, ND 58502-1297 (701) 223-1717 Fax (701) 222-0894

OTHER OFFICES: Minot and Grand Forks, ND
Thief River Falls, MN

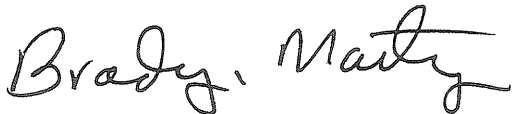
Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

COMPLIANCE AND OTHER MATTERS

As part of obtaining reasonable assurance about whether the North Dakota Public Employees Retirement System's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*.

We noted certain matters that we reported to management of North Dakota Public Employees Retirement System, in a separate letter dated November 5, 2008.

This report is intended solely for the information of the audit committee, Board of Trustees, management, the Legislative Audit and Fiscal Review Committee, and other state officials, and is not intended to be and should not be used by anyone other than those specified parties.

A handwritten signature in black ink, reading "Brady Martz". The signature is fluid and cursive, with the first letters of each name being capitalized and prominent.

BRADY, MARTZ & ASSOCIATES, P.C.

November 5, 2008



CERTIFIED PUBLIC ACCOUNTANTS
AND CONSULTANTS

**PUBLIC EMPLOYEES RETIREMENT SYSTEM
SPECIAL COMMENTS REQUESTED BY THE LEGISLATIVE AUDIT
AND FISCAL REVIEW COMMITTEE**

June 30, 2008

The Legislative Audit and Fiscal Review Committee requires that certain items be addressed by auditors performing audits of state agencies. These items and our responses are as follows:

Audit Report Communications:

1. What type of opinion was issued on the financial statements?

An unqualified opinion was issued on the 2008 and 2007 financial statements.

2. Was there compliance with statutes, laws, rules, regulations under which the agency was created and is functioning?

Yes - A review was made of Chapters 54-52, 54-52.1, 54-52.2, 54-52.3, 54-52.6 and 39-03.1 and other pertinent chapters of the North Dakota Century Code and we felt the System operated within the statutes, laws, rules and regulations under which it was created.

3. Was internal control adequate and functioning effectively?

Yes

4. Were there any indications of lack of efficiency in financial operations and management of the agency?

No

5. Has action been taken on findings and recommendations included in prior year audit reports?

Yes

6. Was a management letter issued? If so, provide a summary below, including any recommendations and the management response.

Yes – A separate management letter has been issued and is attached following page 72. Please refer to this document for all recommendations and agency responses.

Audit Committee Communications:

- 1. Identify and significant changes in accounting policies, any management conflicts or interest, any contingent liabilities, or any significant unusual transactions.**

None

- 2. Identify any significant accounting estimates and the process used by management to determine those estimates.**

The System utilizes various investment instruments. Investment securities, in general, are exposed to various risks, such as interest rate, credit, and overall market volatility. Due to the level of risk associated with certain investment securities, it is reasonably possible that changes in the values of investment securities will occur in the near term and that such change could materially affect the amounts reported in the statement of net assets.

- 3. Identify any significant audit adjustments.**

None

- 4. Identify any disagreements with management, whether or not resolved to the auditor's satisfaction, relating to financial accounting, reporting, or auditing matters that could be significant to the financial statements.**

None

- 5. Identify any significant difficulties encountered in performing the audit.**

None

- 6. Identify any major issues discussed with management prior to retention.**

None


- 7. Identify any management consultations with other accountants about auditing and accounting matters.**

None

- 8. Identify any high-risk information technology systems critical to operations based on the auditor's overall assessment of the importance of the system to the agency and its mission or whether any exceptions identified in the six audit reports questions addressed above are directly related to the operations of an information technology system.**

Based on the audit procedures performed, the System's critical information technology system is their database software system. This system is currently in the process of being replaced. There were no exceptions identified that were directly related to this application.

This report is intended solely for the information of the Governor, the Legislative Audit Fiscal and Review Committee, and management, and is not intended to be and should not be used by anyone other than those specified parties.


BRADY, MARTZ & ASSOCIATES, P.C.

November 5, 2008



CERTIFIED PUBLIC ACCOUNTANTS
AND CONSULTANTS

To the Board of Trustees
To the Audit Committee
North Dakota Public Employees Retirement System
Bismarck, North Dakota

We have audited the basic financial statements, the combining and individual fund financial statements of the North Dakota Public Employees Retirement System for the year ended June 30, 2008, and have issued our report thereon dated November 5, 2008. Professional standards require that we provide you with the following information related to our audit.

Our Responsibility under U.S. Generally Accepted Auditing Standards

As stated in our engagement letter dated June 10, 2008, our responsibility, as described by professional standards, is to express opinions about whether the financial statements prepared by management with your oversight are fairly presented, in all material respects, in conformity with U.S. generally accepted accounting principles. Our audit of the financial statements does not relieve you or management of your responsibilities.

Planned Scope and Timing of the Audit

We performed the audit according to the planned scope and timing previously communicated to you in our meeting about planning matters.

Significant Audit Findings

Qualitative Aspects of Accounting Practices

Management is responsible for the selection and use of appropriate accounting policies. The significant accounting policies used by North Dakota Public Employees Retirement System are described in Note 1 to the financial statements. No new accounting policies were adopted and the application of existing policies was not changed during 2008. We noted no transactions entered into by the governmental unit during the year for which there is a lack of authoritative guidance or consensus. There are no significant transactions that have been recognized in the financial statements in a different period than when the transaction occurred.

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected.

Difficulties Encountered in Performing the Audit

We encountered no significant difficulties in dealing with management in performing and completing our audit.

Corrected and Uncorrected Misstatements

Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that are trivial, and communicate them to the appropriate level of management. The attached schedule summarizes the uncorrected misstatements. In addition, none of the misstatements detected as a result of audit procedures and corrected by management were material, either individually or in the aggregate, to the financial statements taken as a whole.

Disagreements with Management

For purposes of this letter, professional standards define a disagreement with management as a financial accounting, reporting, or auditing matter, whether or not resolved to our satisfaction, that could be significant to the financial statements or the auditor's report. We are pleased to report that no such disagreements arose during the course of our audit.

Management Representations

We have requested certain representations from management that are included in the management representation letter dated November 5, 2008.

Management Consultations with Other Independent Accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the governmental unit's financial statements or a determination of the type of auditor's opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

Other Audit Findings or Issues

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the governmental unit's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

This information is intended solely for the use of North Dakota Public Employees Retirement System Audit Committee, Board of Trustees and management of the North Dakota Public Employees Retirement System and is not intended to be and should not be used by anyone other than these specified parties.

Sincerely,


BRADY, MARTZ & ASSOCIATES, P.C.

November 5, 2008

**NORTH DAKOTA PUBLIC EMPLOYEES
RETIREMENT SYSTEM
BISMARCK, NORTH DAKOTA**

***Management Letter
June 30, 2008***



CERTIFIED PUBLIC ACCOUNTANTS
AND CONSULTANTS

Governor John Hoeven
The Legislative Assembly

Sparb Collins, Executive Director
North Dakota Public Employees Retirement System

In planning and performing the audit of the financial statements of North Dakota Public Employees Retirement System for the year ended June 30, 2008, the System's internal control structure was considered to determine our auditing procedures for the purpose of expressing an opinion on the statements and not to provide assurance on the internal control structure. However, we noted certain matters involving the internal control structure and its operation that could be improved.

We will review the status of these comments during our next audit engagement. Although we have discussed our recommended improvements with appropriate System personnel, we are available for further consultation. This letter does not affect our report of the System's statements.

A handwritten signature in cursive script that reads "Brady Martz".

BRADY, MARTZ & ASSOCIATES, P.C.

November 5, 2008

**Memorandum on Audit of
NORTH DAKOTA PUBLIC EMPLOYEES RETIREMENT SYSTEM
June 30, 2008**

1. As reported in the prior year management letter, one individual is responsible for and has the ability to prepare and approve refunds from the Public Employees Retirement System and the Highway Patrolmen's Retirement System. To improve the controls over the payment of refunds, we recommend that an individual other than the individual preparing the refund, review and approve the calculation and payment of the refund prior to the disbursement.

Response: A process to review all refunds prior to distribution to members was developed and implemented in October 2008.

2. As reported in the prior year management letter, employees of the System have access to various retirement databases and have the ability to make adjustments, transfers and changes to accounts. To improve the controls over account balances, we recommend the internal auditor perform an annual analysis of all System employees' retirement accounts. The analysis should include a reasonable test for the change in each account balance based upon the individual's current salary and contribution amount.

Response: The Internal Audit division will develop and implement an audit program to review System employees' retirement accounts on an annual basis by June 2009.

3. As reported in the prior year management letter, the System has developed a Business Continuity Plan but has not updated or fully tested the Plan since it was developed. We recommend the Plan be reviewed, updated and tested on an annual basis.

Response: During the past fiscal year, the agency completed the setup for and tested the 'NotiFind' feature which allows a phone or email message to be distributed to designated personnel in the event of an emergency. The agency also implemented a procedure to download the Business Continuity Plan and procedure manuals stored in the 'Recovery' folder on a password protected flash drive which was distributed to the management recovery team and is kept off-site. During the upcoming year, the agency does not anticipate it will have the necessary staff resources to completely test the Business Continuity Plan. Therefore, the agency will identify the areas of the plan that need to be tested and identify the highest priority items to be tested during the year.

4. The System's current personnel policy requires certain IT and Accounting personnel to take a minimum of one week continuous vacation during the year. During this time their duties are handled by other System employees. This provides management an opportunity to test their backup procedures and to monitor an employee's workload and current status. To expand these controls to the entire System, we recommend the personnel policy be updated to require all System employees take a minimum of one week continuous vacation each year.

Response: The agency will review its personnel policy and expand the minimum of one week continuous vacation policy to all employees where this control would be effective. In addition, the agency will have the internal audit division conduct a review every six months to monitor that the policy is being adhered to.